Austria	[illegible]	Indonesia	[illegible]	Philippines	[illegible]
Bahrain	[illegible]	Iran	[illegible]	Poland	[illegible]
Belgium	[illegible]	Israel	[illegible]	Portugal	[illegible]
Cyprus	[illegible]	Italy	[illegible]	Qatar	[illegible]
Denmark	[illegible]	Jordan	[illegible]	S.Arabia	[illegible]
Egypt	[illegible]	Kuwait	[illegible]	Singapore	[illegible]
Finland	[illegible]	Lebanon	[illegible]	Spain	[illegible]
France	FFr7.50	Lux	LFr55	Sweden	SKr12
Germany	DM2.60	Malaysia	M$4.25	Switz	SFr2.50
Greece	Dr150	Morocco	[illegible]	Thailand	[illegible]
Hong Kong	HK$12	Neth	Fl 3.25	Tunisia	[illegible]
Hungary	[illegible]	Nigeria	[illegible]	Turkey	[illegible]
Iceland	[illegible]	Norway	[illegible]	UAE	[illegible]
India	Rs15	Oman	OR1		

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,156

Thursday May 24 1990

D 8523A

ASIA

Economic tigers may be losing their teeth

Page 6

World News

US prepared to consider UN observers for Gaza Strip

The US said yesterday that it was prepared to discuss the dispatch of United Nations observers to the Israeli-occupied West Bank and Gaza Strip. Mr James Baker, the Secretary of State, said the US would enter such talks if that idea came up at the UN Security Council.

The death toll in renewed violence reached 22 as Israelis barred Palestinians of the occupied West Bank from Jerusalem while they celebrated the capture of the eastern half of the city from Jordan in 1967. Page 18

Coalition plans fail

The leader of Romania's National Liberal Party, Radu Campeanu, yesterday refused to join the new government, thus thwarting the victorious National Salvation Front's desire for a coalition. Page 3

US nuclear problems

US has confirmed that problems affecting the safety of nuclear shells deployed in West Germany were identified two years ago. Page 2

Mail order

West Germany, Greece, Spain, Italy and Portugal have so far failed to comply with an EC agreement to charge the same for letters posted to addresses throughout the bloc as they do for internal mail.

Zaire death probe

Zairean Government may probe reports that police slit the throats of 50 students in university unrest in the southern city of Lubumbashi.

Italy averts strikes

Italy's Transport Minister Carlo Bernini yesterday sent work orders to more than 20,000 rebel railway staff to prevent two strikes planned for this week. Page 3

Le Pen censured

French extreme right wing leader Jean-Marie Le Pen was ordered to pay a symbolic one franc (20 cents) in damages for describing Nazi gas chambers as a "detail" in World War II history.

Senegal torture

Human rights group Amnesty International urged Senegal to hold an immediate inquiry into allegations of torture of people held in connection with unrest between 1982 and 1989.

Cocom curbs to end

Western countries have agreed to scrap most Cocom restrictions on high technology exports to East Germany, the government spokesman said yesterday. Page 4

ANC soothes investors

Nelson Mandela, seeking to reassure nervous investors, told South African business leaders that the African National Congress had no blueprint for nationalisation in a post-apartheid society.

Protests in Gabon

Demonstrators massed outside the palace President Omar Bongo and set fire to buildings in Gabon's two main cities after the killing of an opposition leader who police said may have been poisoned.

China arrests rebel

Police have rearrested a prominent Chinese dissident in what appears to be an attempt to stifle any opposition on the anniversary of last year's crackdown on the democracy movement, Chinese sources said yesterday.

Fewer airline delays

European air travellers were delayed less often in the first three months of this year than in the same period last year, an industry group said. The Association of European Airlines (AEA) said 15.8 per cent of flights took off late in the first quarter, compared with 19.8 per cent in 1989.

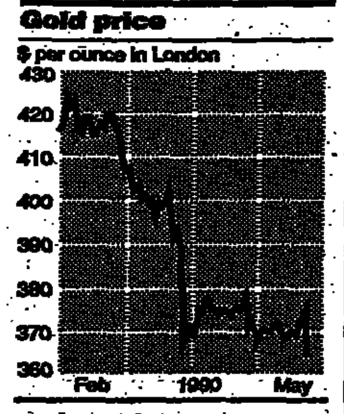
Business Summary

Rescue costs of US savings and loan industry rise

The cost to US taxpayers of rescuing the savings and loan industry has nearly doubled since last summer, further complicating the already difficult negotiations between the Bush Administration and Congress over reducing the budget deficit. Page 18

MARKETS: Gold prices tumbled following a huge sale of physical gold in London from the Middle East. There was concern when traders in New York woke up to find the price plummeting in London. Gold

Gold price



closed in London at $363¾ an ounce, down $11 from Tuesday's close, and in New York at $364.60. Copper prices eased on the LME taking their lead from a weaker Comex. Back page, Section II

PEPSICO, US drinks group, is to enter the Indian soft-drinks industry through a joint venture with Punjab Agro Industries and Voltas in which the partners will invest $1bn over 10 years. Page 4

NIPPON Sanso, Japan's leading industrial gas company, announced it was forming a joint venture with Aga, Swedish gas group. Page 19

ELF Aquitaine, French state-controlled oil group, became the first western oil company to sign an oil exploration and production agreement with the Soviet Union. Page 27

CONSUMERS Gas of Toronto is to receive a rival bid from a private consortium called ProNational Gas (PNG) "equal or superior" to the C$34-a-share cash bid by British Gas. Page 19

FERRUZZI Agricola Finanziaria, Mr Raul Gardini's industrial holding company, reported a 19.4 per cent fall in net profits to L258bn ($207m) on net sales of L14,773bn. Page 21

WESTERN countries should set up an extra line of credit on which eastern Europe could draw as its economies restructure, the European Commission has suggested. Page 2

US economy looks set to remain sluggish over the next few months following a large drop during April in new orders for manufactured durable goods. Page 4

CARNIVAL Cruise Lines, one of the world's leading cruise operators, announced it had filed a $700m lawsuit against the Finnish groups Wartsila and Valmet over a shipbuilding contract. Page 21

KLM Royal Dutch Airlines saw higher fuel prices and financial costs push earnings down by 9 per cent to Fl 340m ($189m) in the 1989-90 fiscal year, from Fl 374m a year earlier. Page 20

WORLD Bank is meeting significant obstacles in its campaign to secure a resumption of lending to China. Page 6

MATSUSHITA Electric Industrial, Japanese electronics combine which sells under the National, Panasonic and Technics brands, yesterday posted full-year consolidated net profits of Y235.6bn ($1.54bn), an increase of 10 per cent. Page 19

Moscow to put economic reforms to a referendum

By Quentin Peel in Moscow

THE SOVIET Government is to hold a nationwide referendum to decide whether the country should switch from centrally planned socialism to a "regulated market economy."

The extraordinary move amounts to an urgent effort to gain popular support for continuing reform when there is a growing backlash against threatened price rises and evidence of industrial decline.

However, the referendum could become a dramatic vote of no confidence in the Soviet Government and force the resignation of the whole administration, according to one of its leading members.

Mr Yuri Maslyukov, First Deputy Prime Minister and chairman of the powerful State Planning Committee, said yesterday that he believed the Government should and would resign if it lost the referendum.

"If the people vote against our plans, then we will say goodbye," he said.

The referendum decision amounts to a major concession to the demands of the conservative official trade unions.

However, it is not clear whether the question will be on the immediate government proposals for price reforms and gradual transition to a market economy, or on the principle of switching to a market system.

Mr Yuri Yanayev, the new leader of the official trade unions, made clear that he wanted a full-scale vote on the latter. "I insist that the Government listen to the demands of the trade unions (for full employment and complete wage indexation), and that the move to a market economy should be done only after a national referendum," he said.

Challenged on whether people had any conception of a market economy, he admitted that they did not even understand the concept of a referendum.

Mr Maslyukov said that no date had been fixed for the referendum, but it should be decided by the Supreme Soviet, the standing parliament, which would hear the Government's reform plans from Mr Ryzhkov today.

He also said that if the Government's reform plans were rejected, then not only should it resign, but that a "round table" would have to be summoned to work out the country's future.

Dr Leonid Abalkin, the deputy premier responsible for the economic reform programme, has consistently argued that the Government lacks the necessary popular mandate to introduce painful economic reforms.

He admitted yesterday that the latest economic package, involving a doubling of food prices from next January, a tripling in the bread price this July 1, and substantial compensation for all levels of the population in the form of wage rises, would not necessarily increase food supplies.

The whole package appears to be a similar compromise to Mr Ryzhkov's first economic reform package last December, which sought to use the controls of the existing planning system to move to a market economy. In the event, industrial production has slumped over the past four months, while wages have increased sharply and inflation is also accelerating.

Pay rises to cover higher prices, Page 2; Gorbachev criticises Yeltsin, Page 18

Mikhail Gorbachev's economic adviser Leonid Abalkin (right) consults Deputy Prime Minister Yuri Maslyukov (centre) and Council of Ministers information chief Lev Voznesenskiy yesterday

ANZ's proposed takeover of insurer is blocked

By Kevin Brown in Sydney

THE AUSTRALIAN Government yesterday blocked a proposed A$3.4bn ($2.59bn) takeover of National Mutual Life, the country's second-largest life insurance company, by Australia and New Zealand Banking Group (ANZ), the second-biggest bank.

Mr Paul Keating, the federal Treasurer (finance minister), said the takeover was against the public interest because it would reduce competition in the insurance market.

"The objection is to its size, and the fact that it [would have] taken the second-largest life insurance business out of play on a stand-alone basis," Mr Keating said.

The announcement effectively rules out any further merger talks between Australia's big four banks – Commonwealth, Westpac, ANZ and National Australia Bank – and the two main life offices, the AMP Society and National Mutual.

"We have come to the view that Australia would be better served with a financial structure where we maintain, broadly, the existing structure of four major banks and two life insurance offices," Mr Keating said.

The announcement was welcomed on the Australian Stock Exchange, where ANZ shares closed 20 cents higher at A$4.90, despite a 23 per cent fall in interim net profits, also announced yesterday.

However, Mr Will Bailey, ANZ chief executive, said the decision raised serious questions about the consistency of the Government's handling of the deregulation of financial markets and its attempts to make business more internationally competitive.

"An obsession with the preservation of a large number of modest and independent participants in the domestic market will prevent the emergence of organisations with sufficient scale and domestic strength to compete abroad," Mr Bailey said.

The announcement surprised the Australian financial community. It had expected the deal to be approved following the conditional go-ahead in March for the takeover by ANZ of National Mutual Royal Bank, jointly owned by National Mutual and Royal Bank of Canada. That takeover will now be reversed.

National Mutual would have been one of the first large mutual life assurance companies in the world to remove control from its policyholders by issuing shares. ANZ would have paid A$3.4bn for 51 per cent of the voting rights in National Mutual, together with a defined share of profits.

The deal would have given ANZ access to an important share of the superannuation market in Australia, which is forecast to grow to A$600bn by the turn of the century because of a switch in government policy towards encouraging private sector pensions.

Mr Keating said his ruling was not intended to indicate a government desire to keep life

Continued on Page 18
ANZ results, Page 21

Nato begins to relax state of readiness

By David White, Defence Correspondent, in Brussels and William Dullforce in Geneva

NATO defence ministers have agreed to begin relaxing the state of readiness of their forces, reduce military exercises and drop formal targets for military spending in line with their reassessment of the security risk in Europe.

At the alliance's Defence Planning Committee in Brussels, the ministers also called on Moscow to "work constructively" to rescue prospects for a conventional arms treaty this year.

The Soviet and West German foreign ministers, meeting in Geneva, agreed on the need to speed up the Vienna conventional arms talks.

Mr Eduard Shevardnadze said that both he and Mr Hans-Dietrich Genscher, his West German counterpart, advocated a meeting of the 35-nation Conference on Security and Co-operation in Europe to discuss pan-European security, but that the first priority had to be the signing of a treaty on conventional weapons in Europe.

Asked if Moscow was ready to make concessions to obtain an acceleration of the Vienna talks, he said the Soviet Union did not have to make concessions, but to seek compromises.

In Brussels, the Nato ministers formally abandoned the 13-year-old target of 3 per cent real annual increases in national defence budgets.

Gen John Galvin, Supreme Allied Commander Europe, proposed interim steps to lower the state of readiness and the availability of standing Nato forces, with a view to follow-on studies on further adjustments, a senior US official said. The general has also put forward a three-year schedule for Nato military exercises which US officials said would substantially reduce the number and frequency of manoeuvres and the number of people involved.

Mr Dick Cheney, the US Defence Secretary, said the requirement for the US to make 10 divisions available within 10 days in the event of mobilisation would be revised.

According to Mr Wörner, the change would also affect units such as air defence forces. But he emphasised that the change did not call into question the need for stationed forces - it was not a "go home" message.

Mr Cheney said any further cuts in US troops in Europe, beyond the currently proposed 80,000 reduction in ground and air forces, would be decided in consultation with allies.

● The allies faced a fresh problem over training sites following decisions by Canada and Turkey not to offer facilities for a major bombing range project known as the Nato Tactical Fighter Centre. Nato had been considering Goose Bay in north-east Canada and Konya in eastern Turkey.

GE, Daimler settle aero engine dispute

By Charles Leadbeater in London and Andrew Fisher in Frankfurt

GENERAL ELECTRIC, the US industrial group and Daimler Benz, yesterday reached an out of court settlement to their dispute over aero engine development in which GE had sued the West German engineering conglomerate for $1.15bn.

GE lodged the suit after accusing Daimler Benz of breaking agreements between the two companies by forming an alliance with GE's competitor United Technologies to pool their aero engine activities.

GE said it was now talking to a number of European and Japanese aerospace companies over possible collaboration in the wake of the dispute with Daimler. The company needs a partner to help it develop the GE90 high thrust engine, which Daimler had been involved in.

Both companies said they were pleased with the terms of the settlement to the dispute which erupted after GE claimed Daimler Benz would be able to use confidential information on engine development to further its alliance

Continued on Page 18

Kohl under fire for failing to consult Bundesbank over union

By David Marsh in Hamburg

MR Wilhelm Nölling, a leading member of the Bundesbank's policy-making council, yesterday sharply criticised the Bonn Government for failing to consult the central bank over German monetary union.

Taking a shot across the bows of the West German Government, Mr Nölling held out the prospect of an increase in the Bundesbank's key interest rates to show that the central bank would not be "pushed around" by Bonn.

Mr Nölling, president of the Hamburg central bank, told the Hamburger Abendblatt newspaper yesterday that it was hardly possible to count the number of times that the Bundesbank had recently been caught unawares by Bonn policy initiatives. "The Government has to stop acting as if the autonomy of the Bundesbank has been put aside for the process of reunification," he said.

Echoing views believed to be held by Mr Karl Otto Pöhl, the Bundesbank president, Mr Nölling said he believed tax increases to finance unity would be inevitable. He said uncertainty over financing future burdens with East Germany "does not strengthen confidence in the D-Mark."

Mr Nölling made his outspoken remarks partly to bring out into the open frustrations at the Bundesbank over repeated differences with Bonn over the last few months.

"Disregard for the Bundesbank's views could start to damage the Bundesbank's reputation," Mr Nölling said. His warning about interest rate rises was given extra weight by his reputation as a dove on credit policy. He has voted only once for an interest rate increase in his 7½ years on the Bundesbank's council.

He said yesterday that he could not rule out a rise in the Bundesbank's discount and Lombard rates, partly for "good psychological reasons, to show that the Bundesbank is sticking to its stability-orientated course".

Mr Pöhl is known to have been annoyed by the Government's failure to consult over Chancellor Helmut Kohl's announcement in February of his intention to bring the D-Mark into East Germany.

The Bundesbank's advice over the exchange rate for converting East German Marks into D-Marks after currency union on July 2 has also been disregarded.

Mr Kohl launched his initiative last month to target January 1993 as the date for European monetary union without any discussion with the Bundesbank.

As the last straw for the Bundesbank, it was kept in the dark about the decision of the Federal and State Governments last week to set up a DM115bn fund to raise money for German unity. Senior Bundesbank officials at the beginning of last week were scrambling to find out details about the fund after the first intimations about it appeared in the press.

Mr Nölling said yesterday that the Government was continuing to confront the Bundesbank with a series of faits accomplis on German monetary union.

CONTENTS

Emotions still rule relations between Korea and Japan

A highly emotional controversy has arisen ahead of today's visit to Japan by South Korean President Roh Tae Woo (left) over to what extent Emperor Akahito should apologise for Japan's previous colonisation of Korea

Page 6

MARKETS

STERLING
New York close
$1.69525 (1.6930)
London:
$1.6935 (1.6915)
DM2.8325 (2.8225)
FFr9.5350 (9.5050)
SFr2.3900 (2.4000)
Y256.00 (256.25)
£ Index 89.0 (88.9)

GOLD
New York: Comex Jun $364.6 (376.4)
London:
$363.75 (374.75)

N SEA OIL (Argus)
Brent 15-day Jul
$16.70 (17.35)

Chief price changes yesterday: Page 19

DOLLAR
New York close
DM1.6760 (1.6725)
FFr5.6405 (5.6290)
SFr1.41695 (1.4167)
Y151.265 (151.20)
London:
DM1.6725 (1.6690)
FFr5.6300 (5.6200)
SFr1.4115 (1.4185)
Y151.20 (151.55)
$ Index 67.2 (67.3)
Tokyo close: Y151.50

US closing rates
Fed Funds 8¼% (8$\frac{3}{16}$)
3-mo Treasury Bills:
yield: 7.89% (7.98)
Long Bond:
101$\frac{22}{32}$ (101$\frac{7}{16}$)
yield: 8.57% (8.61)

STOCK INDICES
FT-SE 100:
2,287.4 (−23.9)
FT Ordinary:
1,810.0 (−19.5)
FT-A All-Share:
N/A
New York close
DJ Ind. Av.
2,856.26 (+4.03)
S&P Comp
359.28 (+2.23)
Tokyo: Nikkei
32,176.51 (+238.21)

LONDON MONEY
3-mo interbank close:
15$\frac{1}{16}$% (15-14$\frac{31}{32}$)
Life long gilt future:
Jun 82$\frac{13}{32}$ (83$\frac{12}{32}$-83¼)

EUROPEAN NEWS

US admits German nuclear shells 'had safety problems'

By David White, Defence Correspondent

THE US has confirmed that problems affecting the safety of nuclear shells deployed in West Germany were identified two years ago.

However, Mr Dick Cheney, US Defence Secretary, said that in his "personal view" there had been no danger of an accidental nuclear explosion. The weapons had since been "fixed" to guarantee their safety.

"I don't think there is any cause for concern," he said after a Nato defence ministers' meeting in Brussels yesterday.

Disclosure of the fault is bound to increase pressure for Nato to remove rapidly and unilaterally the 1,400-1,500 nuclear artillery shells it fields in Europe, mostly in West Germany. Several allies, especially the Netherlands, have been urging this.

Mr Cheney said: "Appropriate officials of the German government were notified that we had identified a problem and that we had solved it." But he would not say at what stage they were told.

He also refused to divulge details on the number of shells involved, on the grounds that the information was secret.

Dick Cheney at yesterday's Nato meeting: 'Shells no danger'

The shells were 8-inch calibre munitions known as W79. Arms experts believe there are more than 200 stockpiled in Europe. They were first deployed in 1981 under Nato plans for updating short-range nuclear weapons. Other plans for replacing smaller-calibre 155mm shells and Lance missiles were dropped earlier this month.

Mr Manfred Wörner, Nato secretary-general and former West German defence minister, said he had been assured that the W79 shells now met Nato safety norms.

Mr Cheney said reports had distorted the degree of risk involved.

"My own personal view is that there was no danger but that the shells in question did not meet the very high safety standards that we have," he said.

The Washington Post cited officials as saying the shells could have exploded if hit in a sensitive spot by a stray bullet or the impact of a nearby explosion. It quoted one senior military official suggesting there could have been a risk of a shell going off if it fell from a truck.

● Soviet troops withdrawing from Czechoslovakia have left behind environmental damage estimated at more than two billion crowns ($125m), the daily Lidova Demokracie said yesterday, Reuter reports from Prague.

It includes underground water reserves contaminated by waste oil which in some places is several metres deep, the newspaper reported.

The Soviet Union, which began withdrawing its 73,500 troops from Czechoslovakia in February, has so far pulled out about a third of its ground forces.

The troops, stationed in Czechoslovakia since the Moscow-led Warsaw Pact invasion of August 1968, will be fully withdrawn by the end of 1991.

Pay rises proposed to cover higher prices

By Quentin Peel in Moscow

THE SOVIET Government has rejected an immediate switch from highly-subsidised fixed prices to free prices, and is proposing instead a stage-by-stage transition to something called a "regulated market economy".

The price reform plans to be presented to the Supreme Soviet today by Mr Nikolai Ryzhkov, the Prime Minister, therefore involve swingeing increases in controlled prices for a whole range of basic foods and consumer goods, balanced by large-scale compensation in the form of wage rises.

In effect, the Soviet Government is not liberalising prices at all in the first move, but simply switching from across-the-board food subsidies to slightly more selective wage subsidies.

The draft law on price reform promises that there will be full compensation for all food price increases – from a tripling in the price of bread on July 1, to a more than doubling of meat, fish, dairy and other products next January 1.

The only price rises not compensated will be wine, beer and vodka, tobacco products and some delicatessen foods.

The bill suggests that government income will rise by Rbs130bn from the price rises, while compensation payments will total Rbs108bn.

It also argues that wage subsidies, as opposed to food price subsidies, are a much more efficient and equitable system.

Apart from food prices, other basic goods like cotton, wool and shoes will all go up 30-40 per cent, and household goods and furniture by 30 per cent. There is no mention of compensation for those items.

Dr Leonid Abalkin, the Deputy Premier in charge of economic reform, admitted yesterday that the higher prices would not have any immediate effect on boosting production; indeed, in some cases, it might even cause agricultural output to drop, if collective farms were not interested in boosting their revenues.

However, the draft law, distributed to Soviet deputies in advance of Mr Ryzhkov's speech, said that all this would allow the Soviet Union to create acceptable starting conditions both for the producers and consumers for the transition to a market economy, to remove the main shortcomings in prices, and liquidate social injustice and unjustified subsidies.

In the course of 1991, the law proposes, retail prices will be gradually liberalised, so that by the year end only 60 per cent of food prices would be fixed, another 25 per cent "regulated" less strictly, and 15 per cent actually freed.

Of household goods, 40 per cent would still be fixed, and up to 25 per cent freed from controls.

Hungarian parliament votes in government

Parliament voted in Hungary's first post-communist government yesterday and adopted its Programme of National Renewal by 218 votes to 126, with eight abstentions, Reuter reports from Budapest.

The newly elected National Assembly installed 58-year-old historian Jozsef Antall, leader of the centre-right Hungarian Democratic Forum, at the head of a three-party conservative coalition.

Mr Antall has said his government aims to withdraw Hungary from the Warsaw Pact and take the country into the European Community.

He replaces Mr Miklos Nemeth, whose Socialist Party, successor to the Communist Party which wound up last October, won only 33 seats in Hungary's first free national elections since 1945.

Moscow welcomes evangelist

By Raymond Snoddy in Luxembourg

IN ONE of the most extraordinary examples of changed attitudes in the Soviet Union, one of America's leading television evangelists is expected to get a regular slot on Soviet television.

For years, Dr Robert Schuller has been broadcasting his weekly television programme, The Hour of Power, to 22 countries. It is carried on Sky Television across Europe at the express request of Mr Rupert Murdoch, chairman of the satellite television company.

Now the programme which is broadcast from the Crystal Cathedral in Garden Grove, California, is likely to be broadcast monthly on the Soviet Union's first television channel to a potential audience of 200m in September.

Mr Mikhail Nenachev, chairman of the Soviet State Committee for Radio and Television, confirmed yesterday after the Luxembourg media summit that final talks would be held in Washington on the broadcast next week. An announcement is expected at a press conference during the Bush-Gorbachev summit.

For Dr Schuller, who has a doctorate in theology and who has written 28 books, it is a remarkable transformation of his image in the Soviet Union. In 1972 he travelled to Leningrad as a tourist and visited a museum of atheism in a former church. There was his picture alongside those of Billy Graham and the Pope identified as "lying christians."

Dr Schuller was first allowed to address the Soviet Union on television last Christmas night and because of the positive response, he will broadcast again this Sunday on the eve of the Summit in what has been billed by Gostelradio, the Soviet broadcasting organisation, as a Heart to Heart.

During the programme he will call on those listening to pray for the success of the summit "so that in the final moments Gorbachev and Bush together will have been used by all the good forces in the universe to bring the world ever closer to the total abstinence of war."

Dr Schuller, who preaches a ministry of optimism has not been involved in any of the scandals affecting television evangelists in the US. He tends to end, including those to senior Soviet broadcasters, with the words:"God loves you and so do I."

The Crystal Church ministry has revenues of $35m a year, most of which goes towards buying air-time on American television to show the Hour of Power.

This programme is approaching its 20th anniversary and is claimed to be the longest running most widely viewed television church service in the world.

Mr Schuller visited Russia in December with Mr Armand Hammer, the oil tycoon who has been influential in the Soviet Union since the Revolution.

Sabena will keep its monopoly of best routes

A LAW that will reduce the 40-year monopoly of Sabena, the Belgian airline, was passed by parliament yesterday amid criticism that it would do nothing to open the market to freer competition, writes Lucy Kellaway in Brussels.

It will allow the Government to grant licences to other companies, although it will preserve the monopoly in the most profitable areas. All flights extending beyond the European Community, and any to or from Europe's biggest airports, will be excluded from the deregulation.

Passage of the law is a blow for Trans European Airways, the Belgian independent airline, which wants all routes opened up.

It has taken the Government to court over its control of the market, which it says is the least liberal in Europe. A TEA spokesman said yesterday that all the new law would achieve was to transfer all Sabena's current rights to Sabena World Airlines, the new company which Sabena owned jointly with KLM and British Airways.

New Concorde

The US and West Germany have confirmed that they will co-operate with a Franco-British study into a new generation of supersonic passenger aircraft to succeed Concorde in the next century, writes William Dawkins in Paris.

Boeing, McDonnell Douglas and Deutsche Aerospace have agreed to take part in exploratory studies, with a view to co-operating more closely later, said Aerospatiale, the French state-owned aircraft maker. Including British Aerospace, this means the world's top five aircraft makers have now agreed to work together on the project.

BNL revelation

Italy's Banca Nazionale del Lavoro granted "insurance" credits of up to L31bn (£15m) in December 1988 to Società delle Fucine in connection with Iraqi orders for steel forgings, Mr Guido Carli, the Italian Treasury Minister, has revealed, writes John Wyles in Rome.

The bank offered similar facilities for a L3.3bn Iraqi order in March 1989, Mr Carli told a Senate committee.

He did not specify whether any of these contracts relate to contracts executed by the steel company which are currently being investigated by magistrates. They suspect that Fucine forgings recently sequestered in Naples and elsewhere may have been destined for the "super gun" which Iraq is allegedly seeking to construct.

A BNL spokesman said yesterday that its Terni branch had been banker to Società delle Fucine for 40 years and that all the transactions referred to by Mr Carli were routine banking.

Danish bridge

Eight European consortia have been chosen to compete for the contract to build the world's biggest suspension bridge across the eastern section of the Great Belt waterway separating the Danish islands of Zealand and Funen at the mouth of the Baltic, writes our Copenhagen correspondent.

Brussels urges financial safety net for E Europe

By David Buchan in Brussels and Lionel Barber in Washington

WESTERN countries should set up an extra line of credit on which Eastern Europe could draw as its economies restructure, the European Commission has suggested.

Mr Frans Andriessen, the EC External Affairs Commissioner, said yesterday that, with requests for various forms of financial support coming in from Czechoslovakia, Bulgaria and Yugoslavia, the time had come to depart from the ad hoc mechanisms used so far to help Poland and Hungary.

Speaking to the Bretton Woods Committee in Washington, Mr Andriessen proposed that the Group of 24 western countries, whose aid is being co-ordinated by Brussels, should put a general safety net under Eastern Europe "to ensure that financial constraints do not hold up reform".

Such a "flexible financing facility" would be in addition to existing sources of loans for Eastern Europe, and to the newly-agreed European Bank for Reconstruction and Development which, at US insistence, will be geared towards the private sector.

This new fund should proceed, he said, regardless of whether the West also helped Comecon countries improve bilateral trade settlement through a payments union.

The need for such a payments system – a stepping stone to full currency convertibility – would become clear after today's Comecon meeting in Moscow. But Mr Andriessen, who was in Moscow last week, warned of the danger of "a sharp contraction" in intra-Comecon trade.

The idea of a payments union is proving controversial among some Comecon members, notably Czechoslovakia.

Mr Vaclav Klaus, the Czechoslovak Finance Minister, told the conference that a union would amount to creating a "poor man's Europe".

Debtor countries in Eastern Europe should not expect special treatment, Dr David Mulford, US Treasury Undersecretary, said.

Dr Mulford said it was a mistake to treat official debtors such as Poland in isolation because it set precedents for the rest of the world.

Dr Mulford also played down Latin American fears that capital was being redirecting to Eastern Europe. But if this persuaded Latin American countries to liberalise their investment regimes and open their markets, then it would serve as "useful discipline."

Further unrest feared as Serbia tries to end Kosovo's autonomy

By Laura Silber in Pristina, Yugoslavia

ALBANIA, Europe's last orthodox Communist state, has begun democratic reforms while its neighbour, Yugoslavia, founders, leaving the ethnic Albanian majority in Serbia's turbulent province of Kosovo caught in the middle.

Faced with increased Serbian control, the 1.7m Albanians in Kosovo attentively follow events in Albania. Serbia, Yugoslavia's largest republic, last week announced plans to make constitutional changes which would strip Kosovo of its autonomy. This process, spearheaded three years ago by Mr Slobodan Milosevic, the President of Serbia, is likely to lead to increased violence in Kosovo and instability in Yugoslavia.

Yesterday all four ethnic Albanian members tried to resign from the Kosovo government. But ethnic Albanian deputies, who are the majority in the parliament, refused to accept the resignations unless the six remaining non-Albanian ministers stepped down as well.

Serbian policies to re-colonise the province and to slash the powers of its parliament will probably make the Albanian population even more radical. Anti-government riots in protest against Kosova's Serbian-controlled leadership left at least 30 Albanians dead and led to hundreds of arrests earlier this year.

Since January, Kosovo's ethnic Albanians have become united in demands for democracy, although organised opposition remains unofficial. In an effort to head off what would be the certain victory of Albanian opposition parties in elections promised before the year's end, the Serbian government is racing to integrate the province into Serbia. It fears that a multi-party parliament in Kosovo would vote to change the province's status, to bring it under Yugoslav federal control rather than Serbian.

Serbs see Kosovo as the seat of their culture even though they represent just 10 per cent of the province's population. They claim that if Kosovo became a republic it would lead to secession.

The Albanians have lived in two divergent political systems since the Second World War. Yugoslavia cut off all cultural and most unofficial contacts between the two countries in 1981, when ethnic Albanian riots rocked the province. However, Metohija, western Kosovo, receives Albanian television and in recent months people have been closely following changes in Europe's least developed country.

Recent legal reforms will enable Albanian citizens to apply for passports. Many will visit Kosovo, either to see relatives or because it will be the most affordable travel for those without hard currency.

Kosovo is the poorest of Yugoslavia's six republics and two autonomous regions, but the living standard is much higher than that in Albania. About 250,000 Kosovo Albanians are *gastarbeiters* (guest workers) in western Europe. "They dream of economic success and do not lean towards Albania, but to Europe, wanting more than one piece of bread and a bicycle," says Mr Veton Surroi, an Albanian opposition leader.

Albania has strongly supported the position of the Albanian minority in Kosovo.

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1: Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage and at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Financial Times (Scandinavia),Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

EUROPEAN NEWS

Fraud and fiddles tax the system

Peter Bruce assesses the urgent need for Madrid to develop a fiscal structure acceptable to the public and local governments alike

ALMOST 15 years after the death of General Franco, almost everyone in Spain agrees that democracy has been a fine thing. Except for the taxes.

Spain is probably the only country in Europe where the taxman can freeze bank accounts for non-payment of tax, where everyone is being issued with a special fiscal identification card for use in practically all non-cash transactions and where the revenue service chief still admits that "we are up to our ears in fraud."

Mr Jose Borrell, Secretary of State for Finance, says he really has no idea how much money Spaniards still owe the state. In the past five years he has doubled the size of the revenue service, chased down the equivalent of £10bn in dodgy insurance policies used by savers to avoid withholding tax on bank deposits and tried, in vain, to stop the falsification of property transfer documents – which then understate the value of property – that costs Spain more than £1bn a year.

Until Franco's death in 1975, Spaniards had almost never been governed fairly. Franco bought off Spain's workers with lifetime employment and the middle classes with an *indulgent tax regime. But he* added to the moral destruction of Spain's institutions and people still hold the state in deep disregard – today a manifestly democratic government still has to remind people that taxes are not used to line the pockets of politicians.

Spain cannot afford to bring such festering distrust with it into Europe and finding an acceptable system of taxation has become urgent. A second major fiscal reform in 12 years should be ready by this autumn.

A manifestly democratic government in Madrid still has to remind people that taxes are not used to line the pockets of politicians

In late 1988 the Constitutional Court threw out the old system of taxing the joint incomes of married people and taxes for 1988 and 1989 have had to be collected late and clumsily. Now Madrid hopes at last to it right.

The Finance Ministry's big problem is that the top marginal rate of income tax has been *allowed to rise to 56 per* cent. It is this progressive element, which causes tax to rise faster than income, that Mr Borrell says he wants to end.

Little wonder. Corporations *in Spain are taxed at only* 35 per cent, with the inevitable result that more and more Spaniards are becoming companies.

"People who can form companies escape personal taxes," he says, "and those who can't don't." One manifestation of the trend is that Gibraltar has just become the world's biggest investor in property in Spain as Spaniards discover the fiscal charms of creating shell companies on the Rock through which to buy homes. Property is then sold by transferring shares, which does not attract capital gains tax.

Fairer taxation need not mean tax cuts in the reform as far as Mr Borrell is concerned. Business and the political Right want the government to use the reform to encourage savings and help cut the country's expensive reliance on foreign capital to service its pub*lic deficits.* It is a plausible argument but both Mr Borrell and Mr Carlos Solchaga, the Finance Minister are sceptical.

"There are no economists capable of making a causal *link between taxation* and savings," says Mr Borrell. "The people that say there is have never saved in their lives. What they want is not to pay tax on capital."

Mr Borrell, who will draft the tax reform, may be forced to throw in some investment incentives but he claims 50 per cent of Spanish taxpayers have tax rates of less than 10 per cent of their income and 95 per cent pay less than 20 per cent. Complaints of high taxes, he insists, come from the 2 per cent powerful enough to make their voices heard in the media.

He would probably be more disposed to listen to the rich had not the Basque region, which has fiscal autonomy within Spain, refused to comply with Madrid's efforts to make financial transactions more transparent and refused to allow distribution in its three provinces of Mr Borrell's fiscal identity card.

In the last two years the Basques have sold about Pta4trillion (million million) of their own treasury notes, mostly to wealthy non-Basque Spaniards looking for a safe bolt-hole for their "black" (untaxed) assets. Madrid is hard put to stop them. The notes will dry up one day but the Basques are discovering that they may be in a wonderful position to provide a safe haven for black money in the Community while still enjoy*ing the benefits of being a fully* paid up member. By then, Mr Borrell may not be around and Spain's tax problems will have become Europe's.

Rome tells train drivers to report to work

By **John Wyles** in Rome

THE Italian Government has issued legally binding orders to report to work today and tomorrow to 20,000 station masters and train drivers who had planned to strike after rejecting pay rises worth up to 48 per cent over the three years.

This is the largest number of workers ever covered by a *precettazione* (mobilisation) order which governments periodically use to protect essential public services. Given the magnitude of the pay rises on offer, ministers are clearly confident of public support in confronting the railway employees, particularly the train drivers who have struck on 22 occasions over the past three years.

The train drivers have come to symbolise the power of the so-called Cobas rank and file movements which have been been rejecting the authority and leadership of the official trade unions. train drivers' militancy was crowned with success last month when their Cobas was admitted as an official representative to the railway pay negotiations. The increases conceded, which *have been accepted by the official* unions, may influence other public sector groups, while also raising expectations in the private sector.

Polish rail workers extend their strike

POLISH rail strikers challenging the Solidarity-led Government yesterday spread their four-day stoppage to central Poland and forecast a nationwide stoppage if the authorities did not negotiate with them, Reuter reports from Warsaw.

A Solidarity union leader said their action appeared politically motivated in the run-up to Sunday's first free local elections since the Second World War.

The Government says the strike, for a 20 per cent pay rise, challenges its radical economic policies and it will not negotiate with the strikers or bow to pay demands.

Mr Jacek Kuron, the Labour Minister, has said the Government will only talk with recognised unions and will not jeopardise its economic programme by making concessions.

The Solidarity union has called for negotiations, but a strikers' spokesman accused it of trying to manipulate them by proposing that talks with *railway management be held* at in Gdansk.

The government economic programme, containing tough measures to curb inflation, has caused soaring unemployment *and sharply reduced real* incomes of Polish workers.

The strikers have blocked Poland's biggest port complex at Szczecin-Swinoujscie.

Stasi issue threatens E German minister

By Leslie Colitt in East Berlin

Diestel: call to quit

EAST GERMANY'S Stasi secret police has again reared its ugly head with allegations that Mr Peter-Michael Diestel, the Interior Minister, has employed many former officials of the hated security service.

Mr Lothar de Maizière, the conservative Prime Minister, met Mr Diestel on Tuesday night and issued a statement expressing support for his minister in the face of growing demands for his resignation.

A government spokesman said the two men agreed to uphold the Government's policy of disbanding the Stasi, which was officially dissolved in February.

Calls for Mr Diestel's resignation have come from his own ultra-conservative German Social Union, the Social Democrats and the Liberals, who together form the coalition Government with the East German Christian Democrats (CDU).

West German CDU politicians have also expressed the view that Mr Diestel has become a liability and this *raised expectations that he* would be dropped by the Prime Minister. But Mr de Maizière has proved a stubborn defender of East Germany's remaining sovereignty.

None the less, many East Germans have been angered by Mr Diestel's view that former Stasi members should be integrated into the police force and the Interior Ministry if they were not to become a potential source of terrorism.

Furthermore, his appointment as his state secretary of Mr Peter Müller, a former Communist functionary and police chief of Karl Marx Stadt *(Chemnitz), was widely* resented. Mr Diestel said he learned only recently of allegations that Mr Müller was responsible for using force against demonstrators late last year.

Romanian Front plan for coalition falls apart

By **Owen Bennett-Jones** in Bucharest

THE LEADER of Romania's National Liberal Party, Mr Radu Campeanu, yesterday refused to join the new Government, thus thwarting the desire of the victorious National Salvation Front to establish a coalition.

The Front leadership said throughout the campaign that it would favour consensus in the Constituent Assembly, or parliament, based on a coalition government. But Mr Campeanu, whose party appears to have won under 7 per cent of the vote in last Sunday's elections, said he would prefer to lead a "constructive" opposition.

By ruling himself out, Mr Campeanu has left the Front with no credible figure to invite into a coalition. Front leaders say they may now approach Mr Ion Manzatu of the Republican Party, which won under 1 per cent.

This would heighten ethnic tensions in Transylvania, where four people have been killed since the revolution last December. The Republican Party allied itself with the extreme nationalist organisation, Vatra Romaneasca, during the election campaign.

The National Peasants' Party, meanwhile, is threatening to boycott the new parliament. It won less than 3 per cent of the votes in the election, which they claim was fraudulent.

US and Iran round off talks

By **Laura Raun** in Amsterdam

US and Iranian envoys are believed to have made progress in talks aimed at settling Iran's $11bn claim against the US over military sales.

Mr Abraham Sofaer, legal advisor to the US State Department, and his Iranian counterpart, Mr Goudarz Eftekhar rounded off three days of negotiations in The Hague yesterday.

They plan to meet again before the middle of June to discuss Iran's demand for compensation for $11bn of allegedly unsatisfactory and undelivered US military equipment.

The bilateral talks follow the recent release of two US hostages in Lebanon and come as Tehran is signalling a desire to end its isolation and re-establish contacts with the West.

Iran has been pressing for years for an out-of-tribunal settlement of the claim, which involves some 2,500 interlinked contracts for military equipment and services and would take years of litigation to settle before tribunal judges.

At the beginning of May Mr Sofaer and Mr Eftekhar concluded an important agreement in which Tehran agreed to pay $105m to settle a group of small US claims against Iran and a government loan dispute.

Like the small claims the $11bn military sales claim is pending in the Iran-US Claims Tribunal in The Hague, which is adjudicating cases arising from the Iranian Revolution.

It was established in 1981 at the end of the 444-day hostage crisis in which 52 US Embassy staff members in Tehran were held by Iranian radicals.

Iran has been pressing for years for an out-of-tribunal settlement of the claim which involves some 2,500 interlinked contracts for military equipment and services and would take several years of litigation to settle before tribunal judges.

France boosts cash for colleges

By **Ian Davidson** in Paris

FRANCE will spend over FFr23bn ($4.09bn) on the expansion of its university system over the next five years, under a plan adopted by the Government yesterday.

Of the total, FFr16bn will come from the state budget, and the remainder is expected to be provided by regional and departmental governments.

The plan is intended both to increase the number of university places, to expand teaching and research space in universities by 1.5m square metres, student housing by 30,000 places, and to modernise existing university facilities, which are notorious for over-crowding, antiquity and lack of maintenance.

A very rapid increase in university places will be needed in order to keep pace with the government's parallel target of raising the educational level of school-leavers so that 80 per cent of them reach the level of the baccalaureat by the end of the century.

Under the plan tabled yesterday, the government expects to create some 300,000 new places, or 32 per cent above the present level, including several new universities in Paris and in the Paris region.

The new plan follows an urgent spending programme of FFr500m for the current year, designed to alleviate the worst effects of over-crowding, which in some universities make teaching and learning almost impossible.

At the start of the last academic year the crush of new students was almost explosive, and next autumn is expected to see 80,000 more students arrive than in 1989.

● French Agriculture Minister Henri Nallet assured parliament yesterday that no case of "mad cow" disease, bovine spongiform encephalopothy (BSE), had been diagnosed in French cattle and there was no need to panic, Reuter reports.

WORLD TRADE NEWS

PepsiCo plans $1bn Indian soft-drinks joint venture

PEPSICO, the US drinks group, yesterday unveiled plans to enter the Indian soft-drinks industry through a joint venture in which investment by the partners is projected to be $1bn (£590m) over the next 10 years, Reuter reports from New York.

PepsiCo, which earlier this year began selling snack foods in India, said it will be a 39.9 per cent partner in the Delhi-based joint venture, Pepsi Foods, which has won government approval.

PepsiCo's share of the investment is estimated at about $100m, an executive said, and a "reasonable" profit is expected after five years.

Mr Christopher Sinclair, president of Pepsi's worldwide beverage business, said yesterday that the venture includes a "fairly balanced counter-trade agreement" in which his company will promote export of Indian goods.

The joint venture, which has Punjab Agro Industries and Voltas of the Tata Group as partners, will include a food processing plant, an agro-research centre, production of snack foods and soft drink concentrate, and a franchised bottling operation, PepsiCo said.

Pepsi and rival Coca-Cola withdrew from India in the mid-1970s. India's domestic soft-drink market is dominated by the Parle group based in Delhi and generates sales of 80m cases worth about $300m a year, a Pepsi spokesman said.

Mr Sinclair called India a hugely underdeveloped market for soft drinks and said a push to expand the business should expand the market.

The joint venture agreement provides that exports must equal half the joint venture's annual revenue, that soft drinks are limited to 25 per cent of annual revenue, and that the inflow of foreign exchange must equal five times the outflow.

"In 15 to 20 years, we could be looking at India as one of the biggest soft-drink markets in the world," Mr Sinclair said.

Coca-Cola's application to re-enter the Indian market was recently rejected by the government, but Mr Sinclair predicted the world's biggest soft-drink firm would make another attempt.

Taiwan in new move on Gatt entry

LESS than a week after announcing historic moves to end a state of war with China and acknowledge its government, Taiwan is launching a second round of international lobbying to try to gain political support for its bid to enter the General Agreement on Tariffs and Trade, Peter Wickenden reports from Taipei.

Taiwan is the world's 12th largest trading nation, and many countries approve of its membership of Gatt on economic grounds. But Gatt members have been unwilling to upset Peking by expressing their support. President Lee Teng Hui of Taiwan has urged Peking to show goodwill by dropping its campaign to block Taiwan's entry to Gatt.

Mr P. Chiang, vice-economics minister, said yesterday the government was writing to the Gatt secretariat to reaffirm its commitment to follow Gatt rules. It stressed no change in this policy after next week's Cabinet shuffle.

"It is a necessary step to maintain the confidence in our foreign trade policy. It has nothing to do with our new position regarding mainland China," he declared.

He confirmed the new lobbying would be directed at Third World countries with close economic links with China. Among these are India and Pakistan, the two countries said to be most opposed to Taiwan's entry to Gatt.

Taiwan will try to extend its network of semi-official trade offices into the Indian sub-continent, and is considering granting most favoured nation status to more Third World countries. "We need to convince them that our entry benefits everybody," Mr Chiang said.

At least two-thirds of Gatt's 96 members must endorse Taiwan's application for it to succeed. The US, Japan and the EC have not yet given any clear support.

Swiss seek bigger role for Gatt in economic policies

By William Dullforce in Geneva

SWITZERLAND yesterday urged reinforcement of the General Agreement on Tariffs and Trade, to enable it to play a bigger role in formulating international economic policies.

In a paper tabled in the group discussing ways of improving Gatt functioning during the Uruguay Round trade talks, the Swiss proposed fundamental review of the mandate, structure, size and composition of Gatt's secretariat. It should be equipped with an independent analytical policy capacity, the Swiss said, with a different decision-making and organisational structure, as well as strengthened staff.

The Swiss foresee creation of an ad hoc ministerial group, served by a special secretariat, within Gatt to provide greater political impetus. More co-operation with the IMF and World Bank would lead to an annual joint report analysing main economic issues facing the world and aimed at achieving greater coherence in trade, finance and development policies.

Trade officials have started focusing more sharply on the kind of organisation needed if the four-year trade-liberalising exercise of the Uruguay Round is completed in December. The Swiss proposal follows the plan presented by Mr John Crosbie, Canada's Trade Minister, last month for converting Gatt into a fully-fledged trade organisation. At present, it only has a provisional legal basis as a world trade instrument.

Not all governments and trade officials are happy with this surge of interest in enhancing Gatt. Mr Arthur Dunkel, Gatt's Director-General, has said it could divert efforts from crucial issues, such as farm trade reform and liberalisation in textiles and clothing, where failure could spell disaster for the Round.

Some countries see a stronger Gatt as a way of persuading the US to scrap unilateral, punitive trade actions under its current Trade Act against countries seen as unfair traders.

Washington's view is that talks on Gatt's status should wait until results of the Round can be assessed. Many Third World countries oppose Gatt's jurisdiction being enlarged, or a role for its secretariat in IMF and World Bank consultations on loan programmes.

Daihatsu, Piaggio hold talks

By Robert Thomson in Tokyo and Haig Simonian in Milan

DAIHATSU of Japan and Piaggio, part of the Fiat group, confirmed yesterday they were in talks to produce a small commercial vehicle in Italy.

The Japanese car maker said a decision on a feasibility study was expected soon, but talks were continuing with several other European makers.

Piaggio, famed for the Vespa scooter, said no decision had been reached on timing, costs or output.

Daihatsu denied reports that the company had agreed with Fiat to make 40,000 units a year from 1991.

The reports suggested Fiat would supply engines, with Daihatsu providing most other components.

But Piaggio said the venture would involve Piaggio-built vehicles incorporating Daihatsu engines.

● Daihatsu said yesterday it was pulling out of plans for a car venture in Poland because it had had no contact from its partner, Fabryka Samochodow Osobowych (FSO) since early this year, although no formal rejection had been received.

Japanese bewildered by Yeutter 'distress'

By Robert Thomson in Tokyo

THE Japanese Government has been bewildered by a show of emotion by Mr Clayton Yeutter, US Agriculture Secretary, who has written a letter to Tokyo expressing his "deep distress" at criticism of US attempts to open Japan's rice market.

The letter had not landed in Tokyo last night, but copies were distributed to journalists in Washington and were circulating yesterday in various Japanese ministries where the nature of Mr Yeutter's complaints has caused embarrassment.

A formal reply will not be made until the letter arrives, but Mr Tomio Yamamoto, the Agriculture, Forestry and Fisheries Minister, said that Mr Yeutter had "misunderstood" a Japanese promise to discuss the rice issue as a promise to accept liberalisation of the market.

"Mr Yeutter's letter shows a lack of concern about the principles of relations between nations during negotiations," Mr Yamamoto said.

In the letter, dated May 18, Mr Yeutter told Mr Yamamoto he was "very troubled" by Japan's criticism of US hints that Tokyo will offer to liberalise the rice market before the Uruguay Round of Gatt negotiations finish this year.

Mr Yamamoto had previously described these US hints as "just one step short of interference in our internal affairs".

Mr Yeutter wrote that during his time as US Trade Representative, he had blocked attempts by US farmers to have Japan punished for its ban on rice imports, and that he had generally shown restraint on the issue.

"After working so hard over three years to manage this issue in a non-confrontational way, I am personally offended and deeply distressed to read that I am, none the less, accused of interfering in Japan's internal affairs," Mr Yeutter wrote.

"We just cannot conduct international trade policy in this manner. Japan cannot insist upon one set of rules for goods and services where it is internationally competitive and another set of rules where it is not."

Senior agriculture ministry officials suggested that one possible formal response will simply be to ignore the letter, as "some people wonder whether we should respond at all to such a personal and emotional outburst".

There are also fears that a tough response could increase the tension between the two ministers.

"Sometimes it takes two weeks for mail to get here from Washington, so we don't think it is right to make a formal reply until the minister receives the letter. He has already made some informal comments," a ministry official said.

Japanese officials believe frustration is growing within the US Administration because of the mistaken presumption that a concession on rice will be made before December, and because other bilateral trade disputes have been settled in recent weeks, but there are no positive signals from Tokyo on rice.

It is widely believed in Japanese ministries that if a concession is made, it will only come in the dying days of December and under extreme international duress, as rice imports remain a controversial domestic political issue.

High-definition TV standards set

THE International Radio Consultative Committee (CCIR) yesterday approved 27 features of a new worldwide standard for high definition TV, Michael Skapinker writes.

The CCIR, meeting in Düsseldorf, left open two contentious issues: how many horizontal lines HDTV sets should have and how frequently images should flash on the screen.

'CoCom curbs on E Germany to go'

WESTERN countries have agreed to scrap most CoCom restrictions on high technology exports to East Germany, an East German Government spokesman said yesterday, Reuter reports from East Berlin.

"In negotiations, it has been possible to agree that no more restrictions will be applied in future, with the exception of special exports such as weapons, arms equipment and technology with strategic value," Mr Matthias Gehler told a news conference.

However, Mr Gehler did not say where the negotiations had taken place or exactly when the curbs would be lifted.

AMERICAN NEWS

Baker under fire for arms 'sell-out'

By Lionel Barber in Washington

MR James Baker, US Secretary of State, yesterday faced charges of a "sell-out" during his recent round of arms control talks with the Soviet Union in Moscow.

The charges, stemming mainly from conservatives, centre on concessions he made as he sought to narrow differences on a strategic arms control treaty ahead of next week's superpower summit.

A more general criticism is that the Bush administration has allowed its desire for a strategic arms pact with Moscow to supersede an agreement to reduce conventional forces in Europe (CFE). President George Bush has said a CFE treaty was the first priority for the US.

Underlying the controversy is widespread unease about the intentions of the Soviet leadership. Senior officials in Washington concede they have little idea why the CFE talks have become bogged down, though some speculate that the prospect of German unification may have caused the Kremlin to have had second thoughts about the CFE treaty in its present form.

During the Moscow talks last week, Mr Baker shifted on one significant aspect of the US negotiating position on strategic weapons. Instead of seeking to undo the modernisation of the SS-18 intercontinental land-based missiles that has already taken place, Mr Baker suggested banning future modernisation.

A senior US official said the new flexibility was aimed at "capping" the development of SS-18s, over 300 of which are in place in the Soviet Union. As part of the START treaty, Moscow has agreed to reduce these "heavy" missiles to 154, with a limit of 1,540 warheads.

Mr Baker also agreed to limit future flight tests of heavy missiles to two a year after a START treaty is signed, probably this year. The aim is to prevent an even more updated version of the SS-18 being developed and deployed. However, there are US reports that a new SS-18, with a single warhead, is already in production.

Other charges centre on the horse-trading on cruise missiles which Mr Baker's aides say was necessary so a START "agreement in principle" could be initialled between Mr Bush and Mr Gorbachev next week. The US, which has an advantage in cruise technology, dropped its insistence on a limit of 1,500km to 600km, close to the Soviet demand.

US order books point to sluggish economy

By Peter Riddell, US Editor, in Washington

THE US economy looks set to remain sluggish over the next few months following a larger than expected drop during April in new orders for manufactured durable goods.

The Commerce Department yesterday announced a 4.1 per cent drop last month in new orders for these goods to $123.3bn (£78bn), following rises of 2.4 and 6.5 per cent in the previous two months. This is nearly double the drop expected by market analysts, and the largest decline since January.

The recent volatile pattern of orders around the $125bn level each month reflects big fluctuations in demand for transport equipment, notably cars and aircraft.

Domestic car sales in the May 11-20 period represented an annual rate of 6m vehicles, down from a 6.4m figure earlier in May and 7.2m a year before.

Excluding transportation, orders have been relatively flat this year. Following other recent indicators pointing to weaker activity in the spring, this points to at best sluggish growth in the US economy over the next few months.

Most economists, as well as the Federal Reserve, are still confident, however, that a recession can be avoided.

The National Association of Business Economists said this week that four out of five forecasters expected there would be no recession either this year or next. Inflation is expected to remain at around 4.5 per cent.

Shipments of durable goods last month dropped by 2.3 per cent and have been on a relatively flat trend since the beginning of last year.

Ratification of Meech Lake accord still in doubt

Compromise hopes for Quebec

By Bernard Simon in Toronto

JOLTED by blunt warnings that Canada is on the brink of breaking apart, English and French-speaking politicians were yesterday reassessing their positions on the controversial constitutional reform package known as the Meech Lake accord.

Although prospects for ratification of the accord by the June 23 deadline remain slim, its supporters hope fears that Quebec will break away from the rest of the country will encourage a new spirit of compromise over the next week or two.

Quebec insists it will not brook any watering down of the the accord, which was hammered out by Prime Minister Brian Mulroney and all 10 provincial premiers in 1987 and entrenches the francophone province's position as a "distinct society" within Canada.

Implementation of the agreement has so far been held up by three provinces – Manitoba, New Brunswick and Newfoundland – which have had second thoughts about giving Quebec the power to "preserve and promote its distinct identity". The accord also gives Quebec new authority over immigration, the appointment of supreme court judges and programmes currently provided by the federal Government.

The stakes in the constitutional debate have been raised in the last few days by the resignation of the ruling Conservative Party's Quebec caucus leader, Mr Lucien Bouchard, and by hints from other federal politicians from Quebec, on both the government and opposition benches, that they will reconsider their commitment to a unified Canada if the Meech accord collapses.

Several provincial leaders have called on Mr Mulroney to convene a meeting of all 10 premiers in the next few days to find a way out of the impasse. New Brunswick's premier, Mr Frank McKenna, said yesterday that a sharp fall in the Canadian dollar earlier this week was evidence of "a rising panic in the country".

But following a gruelling trip to all 10 provinces over the past few days, Mr Mulroney's personal emissary, Sen Lowell Murray, said there was still insufficient common ground between Quebec and the three dissident provinces to justify a meeting.

The political crisis has caused grave concern among Canadian business leaders, who fear that the threat of Quebec separatism will do incalculable harm to Canada's virtually unrivalled reputation for political and economic stability.

Equipment boost for 'Baby Bells'

By Martin Dickson in New York

THE seven regional Bell telephone companies in the US have achieved a significant advance in their battle to be allowed to make and sell telecommunications equipment.

The Senate Commerce Committee has approved a bill to lift the manufacturing ban imposed on them when they were created in the break-up of American Telephone & Telegraph six years ago.

The "Baby Bells" have been battling for years against restrictions on their operations imposed by Judge Harold Greene.

Any congressional legislation would take precedence over the judge's ban. However, the senate panel's move is still subject to further changes in committee, facing an uncertain passage through Congress, and there seems little chance of legislation passing both the Senate and House of Representatives this year.

Moreover, the committee's bill contains a provision, which the Bell companies do not like, insisting that they manufacture in the US using only US components.

The bill does not cover computerised information services and long distance telephony, which the Bells are also keen to enter. Last month a federal appeals court ruled that Judge Greene should reconsider his ban in these areas.

Bank plans fund for Brazil investment

MIDLAND Bank is seeking to arrange a fund with a targeted size of about $1.5bn (£880m) to use bank debt to invest in companies being sold under the Brazilian Government's privatisation programme, writes Stephen Fidler, Euromarkets Correspondent.

The move follows a heavy oversubscription to a similar fund, in which banks submit loans which are then converted into local currency for investment under debt-equity conversion schemes, for Argentina. The fund's sponsors, including Midland, originally aimed for $500m face value of Argentine debt when they announced it in December, but received commitments of more than $1.3bn.

Midland said it was in preliminary discussions with the Brazilian authorities over the fund. It is working with Chase Manhattan and Bank of Tokyo on the project, which it aims to have in place by September. The $1.5bn represents the hoped-for principal amount of the loans to be committed – although the market value of those loans is considerably less.

The Government has said steel, chemical and mining companies will be among the first sold off.

Colombia poll tests survival skills

Sarita Kendall watches the close of a tragic campaign

AT HIS final rally the Liberal Party's presidential candidate for next Sunday's election in Colombia was so hemmed in by bodyguards that he could barely raise his arms in a triumphant victory sign.

If it had not been for a spotlight on Mr Cesar Gaviria's bright red bullet-proof jacket, cheering Liberals – who had been searched twice on the way into the covered stadium – would have been hard put to single out their candidate from his bodyguards.

Cesar Gaviria, flanked by bodyguards, is said to be the candidate most at risk from attack

Outside, light tanks guarded approach roads and a helicopter patrolled overhead. Behind the stadium hung a huge banner showing his predecessor, Mr Luís Carlos Galán, who was murdered last August.

Yet Mr Gaviria tried to behave as if this was a normal election jamboree, animated by rock bands and balloons. Emphasising hope and a better tomorrow, the young leading candidate worked to instil fervour in the closing hours of a tragic but apathetic campaign. Hours later on Monday morning, his co-ordinator in Antioquia, Senator Federico Estrada, was gunned down at a Medellín traffic light.

Balloons and bodyguards also surrounded the Social Conservative Party's candidate, Mr Rodrigo Lloreda, who risked a last open air meeting despite the steady flow of death threats.

Mr Alvaro Gomez, kidnapped by M-19 guerrillas before demobilisation talks began, chose to gather the forces of his National Salvation movement in an auditorium. He will decide the conservative vote, strengthening the already powerful Liberal Party's position.

And an M-19 candidate, Mr Antonio Navarro Wolf, had to rely on former unit commanders to spread his democratic message around Colombia. Mr Navarro, who lost a leg in a grenade attack during the group's short-lived 1985 peace agreement, took up the candidacy last month when Mr Carlos Pizarro, the movement's first candidate, was assassinated in mid-air aboard an airliner. With the murder of the Patriotic Union's last two presidential candidates, M-19 is the only left-wing electoral force still in the running.

"All we can think about is who will be next," said a Liberal Party politician after Mr Estrada's death. The same morning an alert guard deactivated 325 sticks of dynamite; the charge had been placed at a school attended by President Virgilio Barco's grandchildren.

The Medellín cocaine traffickers are blamed for all the car bombs and most of the assassinations, as part of a plan to prevent elections and destabilise the country. A statement from the "Extraditables," as the traffickers are known, warned that they would destroy half of Colombia rather than surrender. But the circumstances in which the left-wing candidates were killed have raised doubts as to whether they were victims of the cartel, which has denied involvement. There is now considerable confusion about right-wing para-military units and who is working with whom, and for what purpose.

From all reports, Mr Gaviria is the candidate in greatest danger. It is easy to see why the traffickers might not want a president who is committed to continue the cocaine war launched by President Barco, who is barred by law from running for another term of office. But it is difficult to believe that the right could fear a Liberal Party stalwart promising mild institutional reforms.

Hopes for change are largely centred on a constituent assembly, rather than on the candidates' programmes. Congress's failure to pass constitutional reforms in the last session led to a frantic search for some mechanism which would bypass a self-serving parliament.

Attempts to hold an informal plebiscite have been obstructed, but the next president will almost certainly set the reform process in motion. The permanent use of the state of siege (it had been in force since 1984, when Mr Rodrigo Lara, the then Justice Minister, was murdered by traffickers) is just one constitutional anomaly.

Violence is having a growing effect on the economy at a time when Colombia has opted for trade liberalisation – a process firmly backed by Mr Gaviria. While National Liberation Army guerillas are responsible for the attacks on oil and mining infrastructure, bankers say that foreign investors are now equally worried by urban terror and threats to their personnel.

There are few big projects on the books and tourism has plummeted. One of the first tasks for the government coming in on August 7 will be to negotiate another $1.2bn (£710m) from the commercial banks, and though Colombia still has a good reputation for sound management and steady growth, the drug war is taking its economic toll.

Eight of the 12 candidates in Sunday's election are unlikely to get more than 1 per cent of the vote between them. But they have contributed a few light moments – Regina de Betancourt, a professional witch, is being sued for providing prime time drama by disgustedly tearing up a $20,000 government cheque towards campaign funds.

The survival of the candidates, and the prospect for peace, have become the most important issues. Both the Government and political parties are trying to persuade a listless electorate, fed largely on television interviews and jingles, to reject terrorism and vote overwhelmingly for the survival of democracy.

AMERICAN NEWS

Lithuanians watch home from afar

Bernard Simon reports on Canada's active Baltic community

The leaders of Canada's Lithuanian community have a problem. They are determined to mount a forceful demonstration to greet President Mikhail Gorbachev on his arrival in Ottawa next Tuesday.

But with events in the Baltic moving so fast, the Canadian-Lithuanians are still unsure what their message to the Soviet leader should be.

Whether the 1,500 protesters expected on Parliament Hill end up vilifying or praising Mr Gorbachev, their message is sure to be an accurate reflection of the position of the fledgling government in faraway Vilnius.

The 35,000 Lithuanians who live in Canada pride themselves on being one of the most effective and best-organised groups of Baltic emigrés anywhere in the world.

Their work vividly illustrates how a tight-knit ethnic community can act as a tenacious mouthpiece for faraway family and friends who have limited contact with the outside world.

What helps to make it possible is late-20th century communications wizardry installed in the Lithuanian Crisis Centre, a back room on the third floor of a musty community centre in Toronto's west end.

At one end of the room, workers are watching a political rock video from Lithuania. In another corner, newspaper and wire service clippings are being prepared for daily faxing to the government in Vilnius.

Mr Al Pacevicius, an engaging 38-year old lawyer who is president of the Lithuanian Canadian community, says that he speaks to President Vytautas Landsbergis or Prime Minister Kazimiera Prunskiene at least once or twice a week.

The channels of communication are reinforced by an estimated 200-300 Lithuanians at any time visiting friends and family in Toronto, and by a small group of Canadians working in Lithuania, who among other things, publish a local newspaper.

Mikhail Gorbachev faces a hostile welcome from Canadian Lithuanian supporters of Vytautas Landsbergis.

With about 15 per cent of Canada's total population able to trace their roots to eastern Europe, the Lithuanians have the advantage of being part of a much bigger ethnic voice.

Liberation movements in Poland, Hungary, Czechoslovakia, the Ukraine and the Baltic states have all been able to count on vociferous support from friends and family in Canada.

Emigré groups from all these places have gained considerable political clout. Three Canadian cabinet ministers attended this year's Baltic Night in a parliamentary dining room in Ottawa, an annual event put on by the Lithuanian, Latvian and Estonian communities.

Thanks largely to the Lithuanian community's efforts a group of Canadian MPs were on hand in Vilnius earlier this year to observe the elections that encouraged the recent affirmation of independence.

History, geography and Ottawa's policy of "multi-culturalism" have helped the Lithuanians stick closer together in Canada than the much larger community in the US.

The 35,000 Lithuanians in Canada pride themselves on being one of the most effective groups of Baltic emigrés anywhere.

Almost all are relatively recent arrivals, who came shortly after the Second World War, or via Britain in the early 1950s. They are a relatively affluent group, including a large number of engineers. The vast majority live in Toronto.

Within a few blocks in the west end of the city are the Lithuanian community centre, a Lithuanian credit union, a Lithuanian Catholic church and a senior citizens home for Lithuanians.

Until early 1988, Canadian-Lithuanians spent much of their energy reinforcing their bonds with one another, in the form of cultural events, a Saturday school and scouts.

Mr Pacevicius recalls that its political activities, mostly in the form of demonstrations against events in Lithuania, were "quite frustrating. It was as if this (the Soviet occupation) was a thousand-year Reich."

The change came in February 1988 when Lithuanian dissidents appealed for help against a Soviet crackdown on celebrations to mark Lithuania's short-lived independence in 1918. Realising the contribution which the media could make to their cause, community leaders in Canada spent C$85,000 ($72,000) on an advertising campaign to publicise their countrymen's plight.

They briefed the Moscow correspondents of Canadian newspapers and television networks, and opened contacts for western journalists in Lithuania.

The local community has sent five "political consultants" to Vilnius in the past year to teach Sajudis leaders the art of 30-second sound bites, media tours and press releases.

The consultants have included a senior Ontario civil servant and a journalist from the Globe & Mail, Canada's leading newspaper. Likewise, getting maximum media exposure is a big part of the preparations for the Gorbachev visit.

Mr Pacevicius and his colleagues are planning a "counter-summit" to draw attention to Lithuania's drive for independence.

And no matter what the protesters' placards say, the Lithuanian-Canadians plan to make sure there are plenty of TV cameras on hand to film them.

Peru calls for more US help in drugs war

By Sally Bowen in Lima

PRESIDENT Alain Garcia of Peru has attacked the failure of the US to keep its promises on fighting the drug war.

In his opening speech to an Andean Pact meeting in the ancient Inca city of Cuzco, Mr Garcia called for immediate implementation of the agreement between the US and the major drugs-producing countries, reached in Cartagena in February, which recognised that economic aid was equally important as military assistance for the coca-producing Andean countries.

"Already this year, thousands of coffee growers have abandoned their crop to sow coca," he said. "We need more action and greater haste in fulfilment of the Cartagena protocol, which demands not just meeting the military costs of direct action against criminal traffickers, but the realisation that an entire coca-dominated economy needs replacing."

President Garcia called current American proposals, including the Brady Plan for relief of external debt, "inadequate so far". Among those proposals is a US offer of $35m in military assistance, which includes sending between 20 and 30 Green Berets to Peru to assist in training local military in the principle coca-producing area of the Upper Huallaga Valley, where drug traffickers and the Maoist guerrilla group, Shining Path, have a dangerously powerful alliance.

Peruvians have been uneasy over recent press reports that the signing of such an agreement is imminent. President Garcia's Cuzco statement reflects the position already assumed by the Andean Commission of Jurists.

Congress blocks aid to El Salvador

THE House of Representatives has voiced strong disagreement with current US policy toward El Salvador in a largely symbolic vote to slap sharp restrictions on military aid to the Central American country, AP reports from Washington.

But moments after Tuesday's 250-163 vote on that issue, the widest margin in favour of curbs on Salvador aid in six years, the lawmakers reversed course and voted to kill the bill to which the aid curbs had been attached.

But a solid majority in the chamber believes continued human rights violations by the Salvadoran military dictate an end to what some have called a *"blank cheque" policy.*

The White House sought to dilute the victory by lobbying hard against final passage of the underlying bill.

The Administration succeeded and the bill was killed, 244 to 171.

Pepsico will push into Indian market

PEPSICO, the US soft drinks group, said it planned an aggressive entry into India for its Pepsi-Cola soft drinks through a joint venture, in which projected investment by the partners is estimated at $1bn over the next 10 years, Reuter reports from New York.

PepsiCo, which earlier this year began selling snack foods in India, said it would be a 39.9 per cent partner in the Delhi-based joint venture, Pepsi Foods, which has won government approval.

PepsiCo's share of the investment is estimated at about $100m, a top executive said, and a "reasonable" profit is expected after five years.

Mr Christopher Sinclair, president of Pepsi's worldwide beverage business said yesterday that the venture included a "fairly balanced countertrade agreement" in which his company would promote export of Indian goods.

The joint venture, which has Punjab Agro Industries and Voltas of the Tata Group as partners, will include a food processing plant, an "agro-research centre", production of snack foods and soft drink concentrate and a franchised bottling operation, PepsiCo said.

Pepsi and rival Coca-Cola Co withdrew from India in the mid-1970s.

India's domestic soft drink market was dominated by the Parle group based in Delhi and generated sales of 80m cases worth about $300m a year, a Pepsi spokesman said.

Mr Sinclair called India a "hugely underdeveloped market" for soft drinks and said an aggressive push to expand the business should open up the market. The Pepsi product will be priced at the equivalent of about 20 cents a bottle in India.

OVERSEAS NEWS

World Bank loans to China face obstacles

By Stephen Fidler, Euromarkets Correspondent

THE World Bank is meeting significant obstacles in its campaign to secure a resumption of lending to China.

Since the massacre in Tiananmen Square last June, the World Bank group has agreed only $140m (£83m) of loans. The three loans, agreed in February, were all from the Bank's soft-loan affiliate, the International Development Association. This compares with annual commitments of about $1.2bn before the Peking clampdown.

The Bank's position is that the process of economic liberalisation will be set back if the country's access to loans for development is cut off. From the Bank point of view, there is a danger, if the policy continues, that the country's rulers will be encouraged to turn inwards.

Opposition to its China policy continues among prominent shareholders – particularly the US – which take the view that sanctions such as a freeze on World Bank loans need to remain in place to remind the Chinese Government of foreign distaste for its actions.

Critics of the Bank suggest its view is coloured by the desire to ensure that the more than $8bn in loan commitments already made to China continue to be serviced in full.

The debate is expected to come to a head next Tuesday, when the Bank's board meeting is expected to consider two loans, totalling $450m, to China and a report by Bank economists on the country's economic situation.

However, it is still uncertain whether the loans will be discussed, since the board's normal decision making by consensus means that contentious lending operations are often not presented to the board until differences are resolved.

There appears broader support among shareholding countries for a $300m forestry project loan, than a $150m transportation project loan for Jiangsu province. Some board members say they will only support basic loans to China offering direct benefits for its people, and transport infrastructure loans do not fit into that category.

Differences between the US Administration and that of the Bank on China and on other matters have led to the observation that the Bank's president, Mr Barber Conable, is increasingly distancing himself from the Administration.

But he has dismissed such talk, saying: "I don't think I'm distancing myself from the US so much as I am trying vigorously in the councils of the US to see that the World Bank's view is advanced."

Asia's economic tigers may be losing their teeth

Ian Rodger questions whether the social fabric in Asia's emerging industrial powers can withstand the pace of such rapid change

RECENT economic and industrial setbacks in South Korea and Taiwan have raised afresh the question of whether these so-called Asian tigers may prove to be toothless after all.

Soaring currencies and wage rates in the past few years have undermined the competitiveness of some basic industries, at least temporarily. Exports have plunged and labour intensive industries have started shifting manufacturing operations offshore to lower-cost countries.

Concurrently, the sudden spread of conspicuous consumption by the new rich in both countries is threatening social stability. In Korea, anger at widening income disparities has contributed to the recent wave of violent strikes; in Taiwan, envy of the Mercedes and Gucci class has manifested itself in an alarming rise in crime rates. The effect, in both cases, has been to undermine investor confidence at a time when other sources of economic growth have flagged.

Any attempt at assessing the seriousness of these developments usually and rightly begins with comparisons with Japan. Economic planners in both Korea and Taiwan have consciously formed their policies on the Japanese model, concentrating first on the establishment of heavy industries, such as steel and shipbuilding, in a protected environment, then gradually climbing up the value and technology ladders and opening their markets to import competition.

On that model, South Korea and Taiwan might be said today to be at states of economic development roughly equivalent to where Japan was 20 years ago. They have scored export successes in a few selected industries and enjoyed a few years of current account surpluses, thanks in part to strict limits on imports. However, the overall circumstances in which they find themselves are different from those affecting Japan at the beginning of the 1970s in at least two important ways.

For one thing, the US and other trading partners have become much tougher much sooner in their demands that South Korea and Taiwan open their markets than they were towards Japan. Indeed, it is likely that the US has been aggressive mainly to prevent the possibility that they would become mercantilist monsters like Japan was until recently.

It remains to be seen if the sharp revaluations of the won and the NT dollar against the US dollar in the past three years are too tough for these economies to bear. Certainly, recent export reverses of some leading industries have highlighted just how fragile their industrial structures are. For Korea, steel, electronics and cars have been the export stars, and, having lost cheap labour and a cheap currency, they appear to have been left without any comparative advantages. Last year, Korean car exports plunged almost 40 per cent to 356,000 units.

Taiwan has the same problems in its petrochemical industry while its computer sector, which soared to prominence in the mid-1980s, appears to be having difficulty keeping pace with US and Japanese competitors.

Another difference with Japan is that even though Taiwan and Korea may be some 20 years behind their powerful neighbour in terms of economic maturity, their people are already demanding big rewards for their efforts. Japanese authorities still have not had to face much pressure on these fronts.

It is thus possible to forecast that the two erstwhile tigers will slip into decline as their terms of trade deteriorate and the work ethic disappears. However, not all is gloom and doom. Savings rates of both are still very high, and both are likely to score growth this year of more than 6 per cent. More important, they seem to have copied not only Japanese industrial development strategies, but also some of their neighbour's tactics for carrying them out.

The Japanese, for example, have frequently resorted to the tactic of working themselves into a frenzy of anxiety when things start to go wrong. These days, the Korean and Taiwan authorities and media seem to be doing the same thing, seizing every opportunity to bemoan their lot and exhort their industrialists to invest more, study more, work more.

Social solidarity is, for varying reasons, less instinctive in Korea and Taiwan than in Japan, and so it is difficult to say whether the Korean and Taiwanese people will respond to this sort of call in the positive way that Japanese people have always done. If not, the two could turn out to be paper tigers after all.

Emotions still rule Korean-Japanese relationship

John Ridding and Ian Rodger report on the tense background to President Roh's Tokyo visit today

THE AMERICANS may be able to make the Japanese jump, but only the Koreans can make them walk on eggshells.

Government and diplomatic circles in Tokyo are in a state of high tension today as South Korea's President Roh Tae Woo flies in on his first official visit to Japan.

In preparation for the visit, the two sides have managed to stir up a highly emotional controversy over the extent to which Japan's Emperor Akihito should apologise to Mr Roh for the brutal Japanese colonisation of Korea between 1910 and 1945. The Koreans, by making specific demands, have offended the Japanese.

Japanese officials, by procrastinating on the constitutionality of the emperor making an apology, have enraged Korean public opinion – and not a few Japanese.

As Mr Roh flies in to Tokyo, it is still not clear what, if anything, the Japanese Government is going to allow the emperor to say.

Whatever happens, the dispute highlights how their tormented mutual history continues to stand in the way of the more intimate relations. At a time when the strategic balance in north-east Asia appears to be on the verge of significant change, Japan will need good relations with its neighbours on the Korean peninsula.

And at a time when Korea's economic strength is under challenge, Japan could be a strong source of support. For all the enmity between the two, they have many common cultural traditions and economic structures. Indeed, paradoxically, each is probably more like the other than it is like any other country.

"Our position is that we don't want to linger on the past and as neighbouring countries we need strong relations," said Mr Lee Joung Binn, Assistant Minister for Political Affairs in Seoul's Foreign Ministry. "The 21st century is going to be the Asia-Pacific era and we need to be forward looking."

Some progress has been made. In recent negotiations the Korean and Japanese foreign ministers reached agreement on the long simmering issue of the status of third generation Koreans residing in Japan.

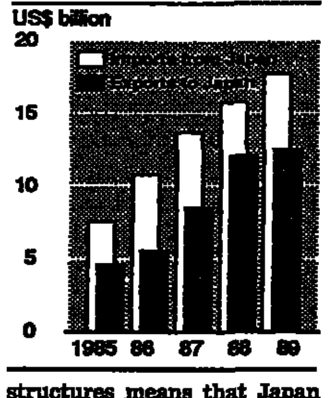
There are now some 677,000 Koreans resident in Japan (750,000 by Korean count), most of whom trace their presence to people forced to work in Japanese factories during the war. Many were born in Japan and have never lived in Korea.

Yet unless they take up Japanese citizenship, they are treated like other temporary residents. The recent agreement provided a number of concessions from the Japanese side, including the lifting of the requirement that third generation Koreans submit themselves for fingerprinting.

On the economic front, ties between the two countries are strong. They share similar concerns in international trade issues and bilateral trade flows have soared from about $10bn in 1979 to $29bn last year. According to Mr Park Yong Hak, chairman of the Korea Japan Economic Association, Korean and Japanese companies are beginning to set up horizontal divisions of labour in sectors such as steel and petrochemicals.

In technology transfer, the links are equally strong. The export success of Korean cars mobiles and electronics partly reflects the lower cost application of Japanese technology. In the automobile industry such linkages persist. Mitsubishi has a 10 per cent stake in Hyundai Motors, while Mazda has a stake in Kia Motors.

Korea – Japan trade



The similarity of industrial structures means that Japan and Korea compete directly in sectors ranging from steel to motor vehicles and from shipbuilding to electronics. In recent months this has caused problems for Korea. The depreciation of the yen has eroded Korea's price advantage over Japanese manufacturers in international markets, leading to a depressed export performance.

Direct competition can also deter technology transfer. "In the past we received a lot of our new technology from Japan," says a manager at one of Korea's largest electronics manufacturers. "But the Japanese are now much more reluctant. They know we are trying to beat them."

However, economists in both countries believe they would do well to co-operate more, as a more uncertain world trading environment emerges. In regional affairs too, there are security, economic and political forces pushing for closer co-operation.

In many respects, the convergence goes deeper than trade and co-operation. There are striking similarities between Korean and Japanese business and political structures. The Chaebol, the large conglomerates which dominate the South Korean economy, have obvious parallels with the Japanese Zaibatsu and many Korean business traditions and practices, not least the tendency to male-oriented rowdy evening entertainment, are remarkably similar to those found in Japan.

The formation of a large new ruling coalition of political parties in Korea appeared consciously modelled on the Japanese political structure. Even its name, the Democratic Liberal Party, echoes Japan's Liberal Democratic Party.

But these parallels cannot be taken too far. The management structures of Korea's family-owned Chaebol differ markedly from their Japanese counterparts while the workings of the infant DLP are very different from the LDP machine.

In any event, the legacy of history still represents a substantial barrier to closer relations. Koreans' dislike of the Japanese is deep rooted. Many of the most important dates in Korea's history involve conflict with Japan and many of Korea's national heroes achieved their status through fighting their neighbour.

For their part, many Japanese look on Koreans as boorish, and prefer to avoid Korean residents in Japan. Most Japanese have little knowledge or a distorted impression of the history between the two because of the Education Ministry's suppression of it in school texts.

Indeed, the real reason the Japanese Government has worked itself into a tangle over the apology question is that it is afraid that a strong apology would provoke an ugly reaction from Japanese people who would not understand why it is being offered.

Feelings on both sides are so strong that it would take more than a few well chosen imperial words to resolve the complex legacy of conflict.

Thousands of South Korean students yesterday attended the funeral of a colleague who died travelling to an anti-government rally in the south-western city of Kwangju.

The funeral of Shin Jang-ho, who was 21, attracted thousands of students and dissidents, but despite the anti-government, anti-American rhetoric there was no violence, Reuter reports from Kwangju.

The crowd of some 3,000 called for the downfall of President Roh Tae-woo and his ruling Democratic Liberal Party, and for the removal of the 43,000 US troops in South Korea as Shin's flag-draped coffin was carried through the streets.

Shin died last Saturday from injuries suffered when he jumped from a train to avoid a police cordon north of Kwangju. He was travelling to a rally sponsored by Chondaehyop, the radical student group, to commemorate the 1980 Kwangju uprising brutally put down by the army with heavy loss of life. The uprising is an emotional political issue and its anniversary a radical rallying point.

The crowds at Shin's funeral, organised by Chondaehyop, were mostly students. South Korea's ubiquitous riot police stayed away for most of the day – apparently to avoid provoking a confrontation – and only a few traffic policemen lent an official presence.

Green politics makes its first mark in India

By David Housego in New Delhi

A SIT-IN close to the Prime Minister's residence in New Delhi has signalled the emergence of a subject which has never previously been considered a political issue in India – the "green" factor.

The demonstration last week was against the giant Narmada dams project in central India, which will entail submerging land belonging to the region's tribal peoples.

Although the Government has confirmed that the project will go ahead, the protest was at least partly successful – it aroused considerable interest in the consequences of the project and drew support from thousands of people. It also attracted the attention of the Prime Minister, Mr V.P. Singh, who spent more than 90 minutes with the demonstrators.

Mr Singh promised that their suggestions concerning the Rs130bn (£4.5bn) project would be examined by government experts.

The sit-in also led to the chief minister of Gujarat, one of the two states for which the project is intended, bringing hundreds of villagers to New Delhi on Tuesday to hold a counter-demonstration.

The review, and the action of Gujarat's chief minister, appear to have led to a decision to go ahead with the dam, but only after environmental factors are taken into account.

The protest movement was led by a social worker known as Baba Amte. He camped near Mr Singh's office for four days with 2,000 of the tribal people whose land will be submerged.

"Baba", a term of affectionate respect for a man who has spent much of his life working with leprosy patients, called off his sit-in after his meeting with the Prime Minister.

Accompanying this Gandhian approach is a warning to the Government of potentially explosive violence among the large tribal population of central India whose poverty has increased under the pressure of population, and who see in the dams project a symbol of destructive development. If the Government remains deaf to their appeals, Baba Amte says, "the Naxalites (a rural revolutionary movement) will snatch the movement from the tribal leaders. It has happened elsewhere."

At the heart of the Narmada project, which stretches across Madhya Pradesh and Gujarat, are two giant dams. The Sardar Sarovar dam, already under construction in Gujarat and financed in part by World Bank funds, is scheduled to produce 1450 megawatts of power and irrigate the drought-prone areas of Kutch and northern Gujarat, at an official cost of Rs64bn.

The Indira Sagar dam in Madhya Pradesh, still on the drawing board, will generate 1,000MW of power at an estimated cost of Rs60bn.

Between them the two dams would displace 300,000 people and – according to opponents – submerge almost as much land as they would irrigate.

Against an official government opinion which backs the dams for their hydro-electric and irrigation potential, Baba Amte sees them as a wasteful use of resources and destructive of the life of the region. He wants a moratorium on all large dams. Baba Amte, who lies stretched on a bed because of a spinal disorder, says: "Personally I will not allow the dam to be filled. My dead body will be there."

He had hoped that his cause would have received more support, due to the changes of government in New Delhi and in Madhya Pradesh. Mr Singh appointed an active environmentalist – Mrs Maneka Gandhi, the sister-in-law of the former Prime Minister - as his Minister of Environment, while in Madhya Pradesh the radical Hindu BJP took power this year. In their election campaign the BJP declared themselves opposed to the project.

But they appear to have undergone a change of heart since then, with protesters in the state being charged by local police last month.

Iraq and PLO urge tougher line on Israel

By Lamis Andoni in Jordan and Tony Walker in Cairo

IRAQ AND the PLO are pressing fellow Arabs to stiffen their military posture towards Israel to confront what both regard as the serious threat to regional stability posed by the influx of Soviet Jews to Israel.

Efforts to revive the virtually moribund Arab Defence Pact, under which Arab states are obliged to come to each other's assistance in the event of external aggression, will be one of the principal demands advanced by the PLO and Iraq at next week's Arab League summit.

Both the PLO, which called for the emergency summit in Baghdad to debate the immigration issue, and Iraq have concluded that improved military co-ordination between the Arabs is required to deter what are perceived as Israel's territorial ambitions.

The push among some of the Arabs for a stronger military axis coincides with growing fears in regional capitals of the dangers of war. Egypt's moderate President Hosni Mubarak warned this week of a conflagration in the absence of any movement towards peace.

Egypt and the moderate Gulf states are unlikely to express much enthusiasm for Iraqi and PLO attempts to put some teeth into the Arab Defence Pact, but they may find it hard to resist call for closer military co-ordination.

Cairo is known to have been alarmed by the Iraqi President Saddam Hussein's recent threats to destroy half of Israel with binary chemical weapons if attacked.

But this week's explosion of violence in Israel and the occupied territories has added to a sense of militancy.

PLO officials have this week been emphasising the need for a stronger military stand.

"The PLO has not dropped armed struggle, it is the Arab states that abandoned the military option," said Mr Yasser Abed Rabbo, a member of the organisation's "inner cabinet".

One of the PLO-Iraqi priorities is to draw Egypt, with its military strength, closer to a more militant Arab stand.

Bofors papers offered to India

THE Swedish government said yesterday it would give India a classified report on allegations that Bofors, the Swedish arms maker, bribed Indian officials to win a $1.3bn (£760m) contract in 1986, Reuter reports from Stockholm.

"The government has taken the decision to give this report to the Indian government this afternoon, in New Delhi," Mr Lars Lundberg,a Foreign Ministry spokesman, said.

ANC business talks

South African black leaders held talks with businessmen yesterday about how best to generate and share wealth in a post-apartheid economy, writes Our Foreign Staff. The meeting follows a fierce debate over the question nationalisation. The African National Congress favours nationalising important enterprises including the mines and banks.

Politics provides the smoke damage at the global fire sale

Andrew Marshall examines some fundamental principles governing the selling of state assets and obstacles which arise

THE global fire sale which began in the 1980s continues unabated. Governments all over the world are selling off state-owned enterprises, whether driven by the pursuit of greater efficiency, the need to reduce state budgets, or the dictates of multilateral organisations.

A decade after the state auctioneers first got to work in the UK, privatisation is now underway in nearly every country in the world. But the varying degrees of success are underlined by the cases which the Financial Times has selected for examination over the past months. In few cases has privatisation run according to plan; in many, it has been the cause of large-scale political disruptions, resignations and scandals.

The obstacles to privatisation, experts underline, are primarily political. The main limitation of the technique is that accommodating political opposition often involves compromise. This can reduce the efficacy of divestitures as a tool for promoting economic efficiency. The state, in all of the cases examined, has been deeply entrenched in social and economic structures; disentangling it has been a complex and risky task. In other words, privatisation confronts precisely those forces which it seeks to reduce - political involvement in the economy - and sometimes loses.

UNBUNDLING THE STATE

"The ingredients for success start with political will and commitment," says Mr David Levintow, assistant director of the Centre for Privatisation, a Washington-based consultancy specialising in state disposals. "It is a political process, driven by financial and economic problems."

Probably the most successful campaign of those examined in the series has been Chile. General Pinochet, Chile's military ruler, had the advantage of political stability since he ran a dictatorship, brooking no opposition from the unions. Now that Chile has returned to democracy, a halt in privatisation – if not a reverse – is planned. In Argentina, Mr Carlos Menem has to accommodate opposition to his privatisation plans and consequently has been forced to adapt.

In addition, there is something of a clash between two fundamental motivations for privatisation: the desire to maximise the short-term gains, in particular the revenue from sales, and the need to establish a more efficient economic structure, which requires more attention to long-term questions of profitability, competition and regulation.

In many cases examined in the past months, revenue has been the main consideration, and attention to the later phases of privatisation has consequently been lacking.

But there is little sign of any ebb in the trend for selling off state assets in the Third World, and Eastern Europe is about to add to the market.

The capital needed to finance the reconstruction of Eastern Europe, however, may ironically be something of a block on further asset sales elsewhere. Perhaps the biggest problem that faces small Third World countries seeking to privatise will be access to capital and purchasers.

Several countries still refuse to countenance the transfer of public property to the private sector, and China is prominent amongst them. The more ardent advocates of privatisation say that only foreign relations and defence should never be privatised; but in every country examined, large and significant parts of economic activity remain in public hands and will remain there.

But privatisation has been part of a long-term development - the rethinking of the balance between state and private sector.

It is a debate that is still unresolved. But there are some signs of a shift in the balance away from privatisation as the preferred solution to problems of industrial policy. The most successful, and important privatisation campaign has been in the UK.

The British experience of privatisation has been influential; so have British advisers, British merchant banks, and British officials, whether through official channels or privately. In the Third World this sometimes carries the irony that the state entities divested by British advisers were set up with British assistance in preceding decades.

In the UK, the last few privatisations have run into obstacles – the water industry had problems with European Community standards, the electricity sale had to be altered because of problems with the nuclear industry, and there is a row brewing over the sale of Rover to British Aerospace.

There is also a deeper uncertainty hanging over privatisation. The Labour Party is ahead in opinion polls, and promises to reverse some of the divestitures of the last decade. But the backlash against privatisation, if it comes, will never lead to a return of public ownership on the scale of the 1970s.

Adam Smith, the intellectual author of much that has changed in the last decade, wrote in "The Wealth of Nations": "When the Crown lands have become private property, they would, in the course of a few years, become well improved and well cultivated." The best measure of the success of privatisation is that most politicians, whatever their stripe, would now find a measure of agreement with him.

Previous articles in this series appeared on the foreign pages on February 28, March 6, 13, 23, 29, April 4, 11, 19 and 25, May 1, May 9 and May 17.

Indian state power base retained

By K.K. Sharma in New Delhi

A CLOSE supporter of Mr Devi Lal, India's Deputy Prime Minister, was yesterday sworn in as Chief Minister of the northern state of Haryana.

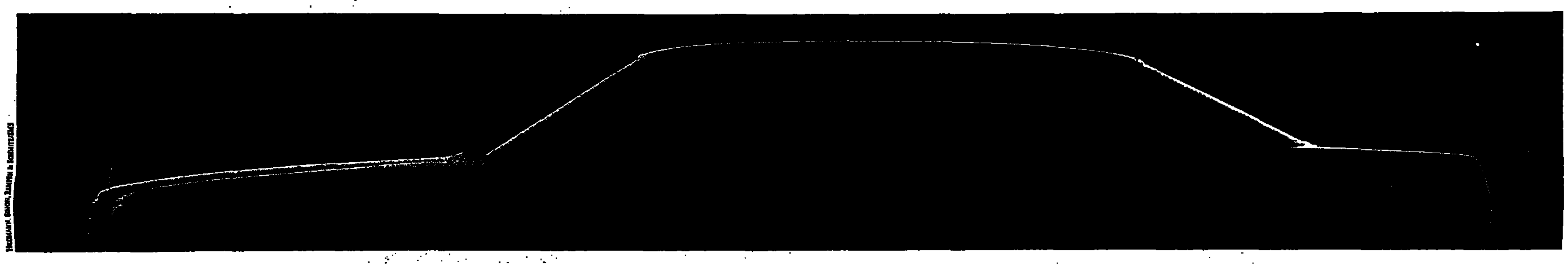
The previous minister, Mr Om Brakash Chautala, eldest son of Mr Devi Lal, resigned on Tuesday under pressure from leaders of the ruling Janata Dal after repeated violence in Haryana's Meham constituency which he was contesting. The violence had twice led to the election's annulment.

The new Chief Minister is Mr Banarsi Das Gupta, who was deputy chief minister in Mr Chautala's ministry. Mr Gupta can be expected to follow the advice of the Deputy Prime Minister.

Mr Devi Lal resisted moves for his son's resignation and finally gave in when he found himself isolated in the Janata Dal.

"Art will always be art."

Johann Wolfgang von Goethe



Mercedes-Benz cars have always been among the most sophisticated and fascinating automobiles of their time.

Spanning more than a century, the history of Mercedes-Benz is a chronicle of pioneering achievements in automotive technology: From the first protective safety body to the electronically-controlled Seatbelt System, the Airbag and the Anti-Lock Braking System.

The history of Mercedes-Benz is a portfolio of classic design. Never merely following temporary fashion trends, but always retaining the distinctive character and identity of the marque. Daimler-Benz, the parent company of Mercedes-Benz, is committed to its leading role in the automotive world.

The automobile is and will remain the driving force at Daimler-Benz.

Yet Daimler-Benz is more than just automobiles. Daimler-Benz is aerospace, aviation, advanced electronics and communications.

With all of these resources at their disposal, Mercedes-Benz engineers will continue the science – and art – of creating the world's finest automobiles.

DAIMLERBENZ

Daimler-Benz AG, P.O. Box 800230, D-7000 Stuttgart 80, Federal Republic of Germany

UK NEWS

Increased competition may affect trading, cautions Bank of England

Tough times forecast for UK banks

By David Lascelles, Banking Editor

UK BANKS face tough times in the early 1990s as they adjust to changing circumstances and increased competition, according to the Bank of England.

In its annual report on the state of the UK banking industry, the Bank's supervision department says banks must cope with new challenges from the creation of the single European market, from the encroachment of building societies and insurance and investment companies on their traditional turf, and from specialist lenders, as well as from more discerning personal customers.

All this is happening against the background of the first significant slowdown in the UK economy for some time. The growth in loan business has begun to level off. While this means there will be less lending in sectors which worry the Bank, such as highly leveraged deals and property, more borrowers will get into difficulty, forcing banks to make higher provisions against bad debts.

But there is comfort from the Third World debt front where banks have largely overcome their vulnerability through heavy provisioning.

LARGE BRITISH BANKS: EARNINGS

£ billions *Percentages in italics*	1985	1986	1987	1988	1989
Trading profits before bad debts	4.97	5.58	6.02	6.86	7.72
Pre-tax profits	3.29	3.84	0.73	5.67	0.86
Post-tax profits	1.80	2.48	0.09	3.68	0.50
Pre-tax return on equity	*24.8*	*24.3*	*4.0*	*27.5*	*3.8*
Post-tax return on equity	*13.4*	*15.7*	*0.5*	*17.8*	*2.2*
Return on total assets	*1.10*	*1.20*	*0.21*	*1.51*	*0.19*

The growing use of highly leveraged transactions (HLTs) was a concern last year, the Bank says. But the recent tightening of UK monetary policy and the collapse of the US junk bond market have made UK banks much more cautious.

Banks have also become more conservative about lending to property companies. Property lending grew by 43 per cent in the year to February, down from 56 per cent in the previous year. In the six months to February the rate was down to 32 per cent.

The Bank says that banks have taken over property funding from other financial institutions, with foreign banks particularly active. Losses so far have been small but the number of property companies in difficulty is growing.

The Bank notes the criticism that has been levelled at the banks over their aggressive selling of loans to private individuals — and the risks this can pile up for the future. But it comments: "As yet there is no evidence that this is a significant prudential problem".

The Bank's figures show that large UK banks were already facing pressures last year. Although they made record trading profits of £7.72bn before tax, these were whittled down to £860m by bad debt provisions, mainly against the Third World.

The banks' capital strength also declined while their costs rose, though the Bank says this reflects investment in future performance. The big clearers' capital ratios were 9.2 per cent against an internationally agreed minimum of 8 per cent.

It was a better year for merchant banks who earned large corporate finance fees from all the takeover activity. Fund management and some areas of the securities markets were also better.

The UK's appeal to foreign banks continues to be strong. Last year saw record foreign takeover activity, including the acquisition of Morgan Grenfell by Deutsche Bank and of Yorkshire Bank by National Australia Bank, both deals worth nearly £1bn. The total number of foreign banks in the UK rose from 256 to 259, and the Bank says it expects this to continue. On the whole, the Bank is quite encouraged by trends. It says that banks are responding to the challenge by becoming more efficient, controlling their lending more carefully, and developing new sources of profits.

Banking Act Report for 1989/90. Available from Bank of England, Threadneedle Street, London EC2R 8AH. Tel 071-601 4444.

R.H.M. Outhwaite says results show its losses are under control

Lloyd's underwriter improves performance

By Patrick Cockburn

R.H.M. OUTHWAITE, the Lloyd's of London underwriting agency, whose troubles have damaged the image of the London insurance market as a whole, said yesterday that its results for last year showed that it was finally getting its losses under control.

The 1,600 members of Lloyd's syndicate 317 in 1982 managed by Outhwaite will have to pay £76m this year on top of the £92m they have already lost because of asbestos and pollution insurance claims in the US.

But Mr Richard Outhwaite, underwriter for the syndicate, said that the 1989 results were "amazingly better than the previous year." The £76m loss to be paid now occurred in 1988 and last year's loss was only £26m, some £19m of which was the result of changes in exchange rates.

The eight-year crisis for members of syndicate 317 had its origin in 32 reinsurance contracts signed by Mr Outhwaite in 1982 when he agreed for a premium to take over responsibility for the asbestos and pollution claims of other Lloyd's syndicates.

As these claims mounted far beyond expectations members of the Outhwaite syndicate faced crippling losses.

By the end of this year a member of syndicate 317 with an underwriting commitment of £20,000 in 1982 will have paid out £82,400.

In future, payments by syndicate members will be much more limited according to figures produced by R.H.M. Outhwaite yesterday. These showed a loss last year of £26m compared to £76m in 1988 and £85m in 1987.

The improved position at Outhwaite stems largely from the success of the agency in putting an upper limit on its losses through agreement with other Lloyd's syndicates whose insurance business it took over in 1982. Out of 32 contracts with unlimited liability all but nine have been renegotiated or otherwise settled to put a cap on the losses facing the syndicate.

An end to the Outhwaite crisis will be a relief to the Lloyd's market as a whole which has been damaged by the bad publicity stemming from the troubles of syndicate 317.

The number of Lloyd's members dropped by 2,321 last year to 28,386.

Mr Alan Lord, chief executive of Lloyd's, in advance of yesterday's results, strongly underlined that the market as a whole would not rescue syndicates hit by losses as a result of mistaken underwriting policies.

The principal initiative by Lloyd's to defuse the crisis facing syndicate 317 was the appointment of Mr Mark Littman, QC, as conciliator.

Mr Lord said yesterday that conciliation had achieved a broad measure of success with some form of agreement reached on 70 per cent of the contracts responsible for Outhwaite's problems.

He denied that the Outhwaite affair revealed any institutional failings at Lloyd's, adding: "The only thing special about Outhwaite is the size of the losses."

Otherwise its problems were no different from other syndicates or commercial insurance companies hit by escalating claims on US property/casualty business.

UK NEWS

Figures end rallies in UK bond and equity markets

British trade deficit remains high

By Andrew Marshall, Economics Staff

THE UK trade deficit remained stubbornly high in April, and there are signs that import growth has started to accelerate again.

Trade figures released yesterday were further evidence that the UK economy continues to resist efforts to slow it down, and they ended rallies on UK bond and equity markets.

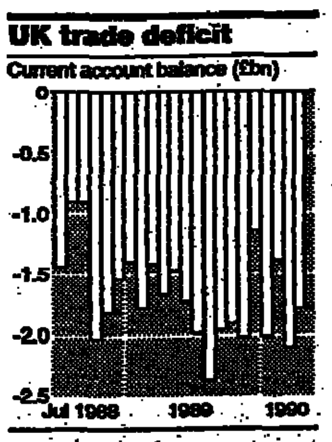
The UK current account and trade deficits both fell to £1.78bn in April, seasonally adjusted, down from a revised estimate of £2.09bn in March for both. The Central Statistical Office said that imports fell slightly to £10.45bn and exports rose to £8.67bn.

But this masked a deterioration in the underlying trade performance. Excluding oil and erratic items, the deficit rose by £0.1bn, the CSO said.

There are signs that the slowing of import growth has now reversed. The volume of imports excluding oil and erratic items grew at an annual rate of 3 per cent, comparing the three months to April with the same period a year ago, the CSO said, up from 2 per cent last month.

UK trade deficit

Current account balance (£bn)



There were increases in imports of consumer goods, raw materials and intermediate goods.

Economists had hoped to see a slowing in these categories, as consumers and companies cooled activity.

Exports turned in a strong performance on an annual basis, with volume expanding at 11 per cent. But comparison with more recent figures indicated a slackening of growth. In the three months to April, exports rose by only 0.5 per cent, while exports increased by 2.5 per cent.

Against the background of continuing rises in inflation, the figures raised doubts about the efficacy of the government's strategy for controlling domestic demand through high interest rates.

This hit confidence in the City, which has been rallying on expectations of early entry to the Exchange Rate Mechanism of the European Monetary System.

The gilts market finished about ¾ of a point down on the day.

"We can dismiss one month's bad figures, but two is more difficult," said John Shepperd of Warburg Securities.

The FT-SE fell 23.9 points on the day. "The equity market has had a rush of blood to the head, and was looking for confirmation of the rally. But it wasn't there," said Richard Jeffrey of Hoare Govett.

Currency markets shrugged off the data.

The Treasury underlined that exports continued to increase much faster than imports. It puts little stress on one month's figures.

But the figures also raised doubts about the government's projection in the budget of a £15bn current account deficit for 1990. On the basis of the first four months, the current account and trade deficits are running at an annual rate of £21.75bn, slightly higher than last year's current account deficit of £21bn.

MPs failed to reveal payments from company

By Alison Smith

SOME payments made to MPs by a parliamentary lobbying firm were not declared on the register where MPs are supposed to list their financial interests, a Commons committee has been told.

Mr Ian Greer, chairman of Ian Greer Associates, a parliamentary lobbying company, told the all-party committee on MPs' interests that over the past five years he had made a total of six payments to three MPs for introducing business, not all of which had been registered.

MPs are allowed to pursue outside commercial interests, but Commons rules require them to list these in a register and to declare them if they speak in the Commons on a related subject.

The evidence will intensify pressure on the committee to produce stricter rules about MPs' interests. Its inquiry follows the suspension from the Commons of Mr John Browne, a Tory MP who failed to declare his business interests.

Report attacks Government's efforts at financial regulation

By Richard Waters and Ralph Atkins

THE Government's efforts at regulating the corporate and financial sectors were harshly condemned yesterday in a report by the all-party Trade and Industry Select Committee at Westminster.

The criticisms extended to two secretaries of state – Lord Young and Mr Nicholas Ridley – over their handling of the controversial takeover of the House of Fraser by the Fayed brothers in 1985.

The committee's enquiry was launched last July to look into the handling of company investigations, but was broadened to cover fraud and insider dealing as it progressed. Its report concludes that both crimes have become more common in recent years, despite claims from the DTI that insider dealing at least had reduced.

While commending the DTI for having made improvements to its handling of company investigations, the select committee said: "Overall we have the impression that the DTI has not shaken off the past attitudes of 'not in *my* in-tray' and 'you don't *need* to know' demonstrated in the Barlow Clowes affair."

It added "Rarely can a government department's discharge of its responsibilities have been held in such low esteem among other involved. This... undermines the effectiveness of the UK regulatory regime".

Lord Young, says the committee, should have referred the House of Fraser takeover to the Monopolies in Mergers Commission in 1988, after he had seen a report from DTI inspectors that the brothers had lied during their takeover of the company.

A spokesman for Lord Young took issue with the allegation, claiming that, contrary to the select committee's report, a reference by him to the MMC had not been the "most likely and effective" action at the time.

The report said: "Our initial conclusion that the DTI's attitude was improving has been confounded by the lack of action taken against the Fayeds following publication of the House of Fraser report."

The select committee's most controversial recommendations are for a system of plea-bargaining and civil penalties on insider dealing, similar to that in operation in the US. The government has resisted such calls in the past, largely because to introduce a range of sanctions would open the way to plea-bargaining in which prosecuting authorities would offer to reduce the seriousness of their charges in return for co-operation from defendants.

The DTI is currently carrying out consultation on changes to insider dealing legislation required under an European Commission directive. Mr Redwood said he was likely to push for a "clearer and simpler" definition of the offence.

BRITAIN IN BRIEF

Report on SIB failure stays secret

THE ISLE OF MAN High Court yesterday refused to release its own inspectors' confidential report into the collapse of Savings and Investment Bank after the UK's Crown Prosecution Service claimed it might prejudice a related trial in England.

This was despite no objections to publication by the legal advisers to the defendants in the case, who yesterday complained that they had not been able to argue their case for publication at the court hearing.

The 500-page report details the events leading up to the collapse of the Manx-based bank in 1982 with £42m belonging to 3,000 depositors. It was the basis of the prosecution case against eight owners, managers or agents of the bank. The case was dismissed last month because of delays in bringing the action.

Speculation on power chief

Indications that Mr Malcolm Bates, deputy managing director of General Electric Company, might become the first chairman of National Power hardened yesterday with a statement by the Department of Energy that it now had a preferred candidate for the job.

The Department was commenting on yesterday's Financial Times disclosure that the Treasury was discussing the terms on which Mr Bates might take up the job originally to have been filled by Lord Marshall, who left the electricity industry six months ago in protest against the slashing of the nuclear programme.

National Power, one of Britain's biggest industrial companies and one of the world's biggest power station operators, is the larger of the two non-nuclear power groups carved from the Central Electricity Generating Board as a part of electricity privatisation.

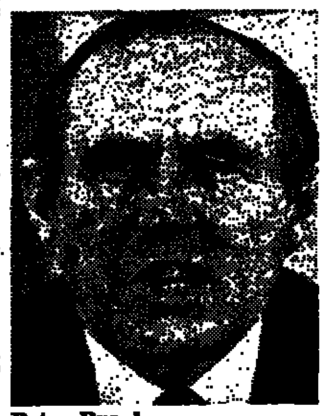
Brooke seeks Ulster meetings

Mr Peter Brooke, Northern Ireland secretary, was yesterday setting out to test support for an agreement reached with the pro-British Unionist party late on Tuesday which could pave the way for formal talks on the province's political future.

He was hoping for early meetings with leaders of the mainly Roman Catholic Social Democratic and Labour Party and of the Alliance Party. Those will be followed by consultations with the Irish Government.

A new economic survey, published yesterday meanwhile, said the Northern Ireland conflict costs the British and Irish governments $655m a year.

Security is the major expense but tourism and foreign investment have also been hard hit in the 20-year battle by Irish Republican Army guerrillas to oust Britain from the province, the report said.



Peter Brooke

UK supports emission plans

European Commission plans for tighter limits on exhaust emissions for heavy duty diesel engines fall well short of the standards the UK believed were feasible and desirable, Mr David Trippier, a junior environment minister, said yesterday.

In reply to a Parliamentary Question from Mr Roger King, MP for Birmingham Northfield, Mr Trippier said the UK had been urging the Commission to bring forward tight new standards but would now press for a substantial tightening of the proposed standards.

Marconi backs cable TV bid

Marconi, the electronics company, is backing Sheffield Cable in its bid to win the cable franchise for the Sheffield area next week. It is the first investment the electronics company has made in cable television.

Marconi has applied to invest £6.8m of the total capital of £34m being put into the cable company. Other main investors include Standard Life, Drayton Consolidated Trust and Mr Eddie Healey, developer of the Meadowhall Centre in Sheffield.

The other seven candidates for the Sheffield franchise are US or French owned cable companies.

Crime up 5% in London

The number of criminal offences in London rose by 5 per cent over 1988, according to the police commissioner's annual report of the Metropolitan Police Service for 1989. The number of arrests increased by 2 per cent and there was a six per cent increase in the number of offences cleared up.

Street robbery and snatch theft dropped by 9 per cent in 1989, but the number of burglaries rose by 4 per cent, reversing the downward trend of the previous three years. Arrests for sexual offences rose by 24 per cent.

Recession in construction

The recession in the construction industry is starting to deepen according to figures published yesterday by the Environment Department showing a further sharp fall in orders received by contractors.

These fell by 16 per cent during the first three months of this year compared with the corresponding period at the start of 1989. Orders were also 10 per cent lower than during the final three months of last year.

The value of orders were calculated at constant 1985 prices adjusted for seasonal variations. The biggest falls occurred in private housing and private commercial sectors.

Arrests over Rushdie threats

An Arabian political magazine editor is among a number of people being held by police

Rushdie: in hiding

believed to be investigating threats made to author Salman Rushdie.

Mr Saeed Shehabi, editor of the weekly magazine, Al Alam, printed in London was detained under the Prevention of Terrorism Act.

Scotland Yard said it was still questioning a number of people arrested under the Act.

Mr Rushdie has been in hiding since February last year when the late Ayatollah Khomeini issued an edict calling for the execution of the London-based author because his novel Satanic Verses was considered to be blasphemous.

Legal move on school choice

The Commission for Racial Equality is asking the High Court for permission to seek a judicial review of a government decision allowing a white parent in Cleveland to transfer her daughter to a mostly-white school. The move follows a refusal by Mr John MacGregor, Education Secretary, to change the law.

UK NEWS

Flying the fast train to London

Tim Burt on contenders for the new rail link for Heathrow airport

THE starter's pistol is about to be fired in the race to build Britain's latest high-speed rail link – the Heathrow Express.

The world's busiest international airport has been served since 1977 by a slow extension of the London underground network. But the BAA (formerly the British Airports Authority) responsible for running the airport has now won political clearance to invite tenders for a fleet of new express trains which will whisk airline passengers from central London to the airport, 14 miles west of the city, in 16 minutes.

The £235m scheme is a central part in Heathrow's strategy to retain its position as Europe's chief strategic hub. Airport executives hope the express trains will be rolling out of Paddington station in 1994 before Charles De Gaulle, the Parisian airport, completes its planned £800m redevelopment which includes a rail station for the TGV, the French high-speed train.

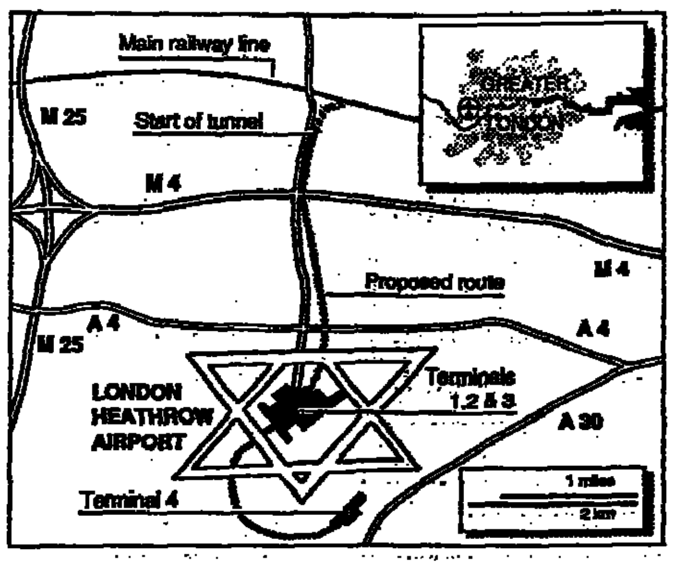
The costs of the Heathrow Express link have been pushed up by the need for new track, tunnels and the decision of BAA to opt for overhead electric traction.

Approval for the link was delayed after parliament rejected BAA's initial route for the link and forced it to adapt its plans to include underground tunnels for environmental reasons. The extra tunneling has pushed costs up by £12m.

The rail link represents the first diversification for BAA away from aviation into rail transport. The authority, which also manages the airports at London Gatwick and Stansted, plus Glasgow, Edinburgh, Prestwick and Aberdeen, will be buying the rolling stock, employing the staff (excluding the drivers who will be employed by British Rail) and owning the track.

The rolling stock represents a £20m-£25m investment and Paul Lablonde, general manager of the Heathrow Express project, says the total project costs will be funded 80 per cent by BAA and 20 per cent by British Rail "in a unique partnership between private and public sectors of business.

"BAA is taking most of the risks – British Rail will be receiving a guaranteed rate of return on its capital."



Slow train: Heathrow passengers take the tube

Mr Lablonde wants to minimise the risks by buying a rugged and reliable fleet of trains which will offer airline standards of comfort. BAA wants trains which will be able to complete the journey in 16 minutes at speeds of up to 100 miles (160 kilometres) per hour.

"We're looking for automatic doors, air conditioning and interiors which will be very clearly designed for air passengers," says Mr Lablonde.

A wooden mock-up has been built to work out seating plans for proposed six-car units with 360 seats. BAA is looking worldwide to select manufacturers of the real thing and is approaching 17 companies in its hunt for the best deal.

Favourite to win the contract, which will be awarded in early 1991, is British-based manufacturer, BREL.

The former British Rail engineering workshops – now 40 per cent owned by Swedish-Swiss power equipment group Asea Brown Boveri – is in pole position.

It recently won a part share in the development of the new networker trains ordered by British Rail for its commuter routes.

The company's track record with London Underground may also help a potential bid for the Heathrow deal.

GEC-Alstholm, the Anglo-French group, holds the other share of the contract for British Rail's networker, a train which Lablonde describes as "similar to what we're looking for." Alstholm technology is used on the TGVs, which may attract BAA, and GEC is involved in the design of the trains for the Channel tunnel.

Hunslet TPL, a UK company formed by managers from Metro Cammel, the British rolling stock manufacturer, is also in the running. Its link with Ganz, the manufacturer for Hungarian State Railways, means the Heathrow trains would be built in the eastern Europe if the company won the deal.

BAA expects British interest in the contract from British groups Brush Electric Machines, Walker Alexander Coachbuilders and RFS Engineering, the freight wagon manufacturer which is keen to develop passenger trains.

BAA is bound by European Community law to invite tenders from manufacturers in member states. The airports group is interested in an electric version of the IC3 diesel train manufactured by Scandia-Randers of Denmark, part-owned by ABB, which boasts a new maintenance system with "easy-to-replace" components.

Linke-Hofmann-Busch of West Germany, which manufacturers the rolling stock for London's Docklands Light Railway, is another contender, as is the locomotive and traction equipment division of Siemens.

AEF-Westinghouse, which manufactured the monorail shuttle at Gatwick Airport and has won a similar contract at Stansted Airport, north of London, is thought to be the only US contender for the Heathrow link.

An Italian consortium of Firema, Ansaldo and Fiat-Ferrovira, best known for building the "Pendolina," the tilting train, will also be invited to tender. Breda, the Italian manufacturer of the ETR 500 – the country's high speed train is also capable of winning the contract, according to BAA.

BN, the Belgian company owned by Bombardier of Canada, is regarded by executives at Heathrow as another possible manufacturer for its fleet, BN has won the contract to make the cars for some of the Channel tunnel trains and has won orders for the latest trains for the Docklands Light Railway in London.

Mr Lablonde says: "BAA will approach all these manufacturers, and some Japanese trading houses representing Far East companies. Some will not be able to meet our specifications and we expect the successful tender to be drawn from a shortlist of six."

Dr. Vine, seen here sampling vintages of Château Duhart-Milon Rothschild for serving in the mid-1990's. He wins the awards, you reap the rewards.

Only one criterion applies to our new cuisine: Is it worthy of our premier wines?

MEET DR. RICHARD VINE. IN HIS PURSUIT OF SUPREME VINTAGES FOR OUR *New BUSINESS CLASS*, HE'S AS TENACIOUS AS HIS NAME SUGGESTS. If his name sounds a little too good to be true, wait till you savour the wines he procures on your behalf. A wine expert of international repute (a Professor of Oenology, no less, and a consultant exclusive to us), he clearly has considerable influence. Besides ourselves, the House of Rothschild permit only one other airline to serve their prestigious vintages. Hence, we're privileged to offer you their Duhart-Milon '83. The Doctor's expertise has borne fruit in another respect. Along with our food, our wines have just won Business Traveller Magazine's 1990 award for being the most outstanding in Business Class (competing, incidentally, with nine other top international carriers). Before you next fly the Atlantic, ring your travel agent or local American Airlines office and we'll be happy to reserve you a table.

Only one criterion applies to our premier wines: Are they worthy of our new cuisine?

American Airlines Business Class

Media buying in Europe

Leaping from the shadows

Alice Rawsthorn examines the implications of the transformation of the market and its leading players

Sometime in the next few weeks an eagerly-awaited document should arrive at the headquarters of Carat, the French media buying business, at Neuilly on the outskirts of Paris.

The document will tell Carat whether the French government has approved its application to handle the media buying for the advertising agencies belonging to Eurocom, one of the largest marketing groups in France. Carat was not legally obliged to seek the government's approval, but chose to do so because of the scale and sensitivity of its proposed involvement with Eurocom.

If the government agrees, Carat – now owned by Aegis, the London-based communications company – will strengthen its position as the biggest single force in French media buying. It will also take it a significant step forward in its plan to dominate the European media scene.

Carat's involvement with Eurocom is only one of a string of acquisitions and associations that are transforming the media buying market in Europe. Only a few years ago media buying – the process of placing ads on television and in the press – was dismissed as one of the dullest areas of advertising. In recent months it has leapt into the limelight.

Scarcely a week goes by without another group of agencies announcing that they are centralising their media buying in another part of Europe. The Interpublic agencies – Lintas, McCann-Erickson and Lowe – are expanding PMI, the centralised buying unit that already operates in France. Saatchi & Saatchi is introducing Zenith, which opened in the UK last year, to other countries.

The agencies owned by the WPP Group – J Walter Thompson and Ogilvy & Mather – are joining forces with the Omnicom networks, BBDO and DDB:Needham, to expand The Media Partnership. FCB:Publicis, the joint venture between Foote Cone & Belding of the US and Publicis of France, has formed Optimédia.

Young & Rubicam is locked in discussions with three other US-owned agencies – Leo Burnett, Grey and D'Arcy Masius Benton & Bowles – about the feasibility of centralising their buying through a single unit.

The reasons for the formation of all these buying businesses and media groups are easy to see. The European media market is increasingly complex and competitive.

The concentration of media ownership among a handful of international groups – controlled by men like Rupert Murdoch and Silvio Berlusconi – means the media owners are becoming more powerful at the expense of the ad agencies.

The emergence of these large groups also offers an opportunity for large agencies to negotiate discounts for bulk buying.

At the same time there are more media outlets than ever before. The deregulation of the European television system and the development of satellite stations, like Sky and BSB, is creating new TV channels. The growth of the international publishing groups has been accompanied by the launch of a stream of new newspapers and magazines.

Traditionally media buying has been conducted by specialist departments within advertising agencies. But, as the market has become more demanding, the specialist buying businesses, the media independents which first emerged in the 1960s have expanded across Europe.

During the 1980s the media independents increased their share of almost every European market. A recent study by Carat, the biggest single specialist media buying business, estimated that more than 20 per cent of all European media is now bought by independents.

The larger independents have been able to use their buying muscle to undercut the traditional advertising agencies by striking discount deals with the media owners. As audiences for the fragmented media have become smaller, the process of buying TV airtime has become more difficult. And the cost to an agency of operating a media department has escalated.

These trends are making media buying more competitive. In some countries, such as Italy and the Netherlands, agencies have already been forced to pool their resources by joining together in "media clubs". In France, which is probably the most competitive market of all, the agencies have chosen a longer-term solution.

Most of the major French agencies have joined centralised buying groups. The French market is now dominated by three groups: The Media Partnership, Publimédia (which combines PMI and Optimédia) and Carat. Together they account for almost half the media bought in France.

"The French market is driven by volume," says Ron de Pear, European media director of JWT, one of the members of the Media Partnership. "The only way to operate efficiently in a market like that is to join together with other agencies."

The advocates of centralised buying argue that this scenario will be replicated in other countries. The trend, or so they say, has a momentum of its own. As the large agencies join together into buying groups, the small and medium-sized agencies will find it even more difficult to compete. There is already evidence that the margins in French media buying have fallen since the formation of the big groups.

"This is the era of the unbundling of media departments," says John Perriss, worldwide media director of Saatchi and the architect of Zenith. "In future you will need to be of a certain size to be able to compete in media buying."

Logic suggests he could be correct. At first glance the development of centralised buying units looks like a rational response to structural changes in the media market. The reality is rather more muddled.

The formation of the existing centralised buying networks has been fraught with problems. One of the chief difficulties has been personnel. Saatchi's plans to introduce Zenith to Italy have been held back by dissent from one of its Italian agencies. The expansion of the Media Partnership has been hampered by similar problems.

Then there is the tricky issue of client confidentiality. Advertisers are understandably concerned about the risk of confidential information slipping out if a centralised buying unit handles competitive accounts.

Procter & Gamble, one of Saatchi's most powerful clients, has refused to participate in Zenith. The potential conflict between two prominent advertisers is one of the biggest stumbling blocks in the negotiations between Y&R, Leo Burnett, Grey and DMB&B over the formation of a buying group.

There is also the issue of who benefits from the discounts negotiated by buying units. The Saatchi agencies see Zenith as a way of improving service and pass on all the discounts to their clients. But it is common practice in France for media buyers to pocket part of the discount, as a "reward" for buying cheaply.

The power of the French buying groups has already attracted the government's attention. It has begun an inquiry into the media buying scene which should be completed within 18 months; it could recommend that the power of the buying groups be curbed.

The European media scene is very diffuse. The method of buying varies from country to country, as does the availability of TV airtime and the level of government regulation. Media broking, whereby one agency books media space and sells it on to other agencies, is practised in some countries, such as France, but not in others, such as the UK.

Moreover some people in the advertising industry see centralised media buying as an unwelcome development. "Media planning and buying is part of the service that agencies have traditionally offered their clients," says Martin Sorrell, chief executive of WPP. "I am not at all convinced it is in the best interests of agencies, or clients, to unbundle media and turn it into a commodity."

Despite all the acquisitions and associations, there is still no fully fledged media buying network operating across all the countries of Europe.

Carat has yet to prove that it can repeat its success in France in other countries. It is still a small player in some markets, such as the UK and the Netherlands, and has yet to expand into Scandinavia. Moreover, some of its companies are associates – where it holds minority investments – not wholly-owned subsidiaries.

Zenith is a powerful player in the UK, but is embryonic in many other markets. The Saatchi agencies still buy separately in West Germany. They are part of a media buying club in the Netherlands, where their market share is relatively small.

The other buying groups are in a similar position. PMI is operative in France and is about to come on stream in Italy. But the Interpublic agencies have not yet agreed on their approach to other markets. The Media Partnership has been introduced to France, Greece and Benelux, but negotiations are still under way in Spain and Italy.

Most of the centralised media buying groups have chosen different structures. Zenith in the UK is the only truly centralised unit. Planning is executed by the individual Saatchi agencies, but buying is conducted by a single unit. Carat provides some services, such as research from the centre, but most of its buying is carried out by its independent subsidiaries.

The Media Partnership and PMI have developed a different approach. In France they provide research and negotiate bulk discounts – or super negotiations – from the centre, but planning and buying is still the province of individual agencies.

Both the Media Partnership and PMI intend to adapt their strategies to meet the needs of different markets.

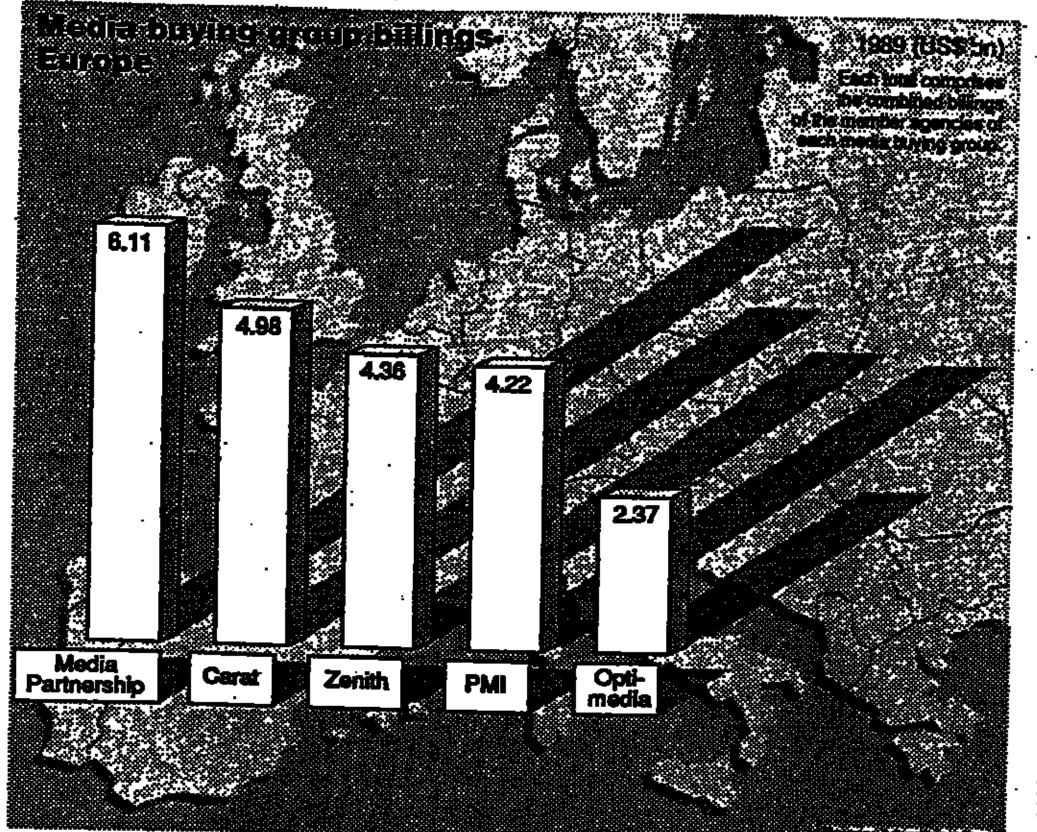
"It would be ridiculous to impose a single solution on all the different European countries," says Stewart Butterfield, European media director of McCann-Erickson, a member of PMI. "We hope to work out some sort of structure in every market. But we will have to be as flexible."

Despite these problems, the centralised buying groups are still expanding. Carat has just opened an office in Portugal and is considering ways of strengthening its presence in the Netherlands. Zenith's development has been slowed by Saatchi's internal problems. But John Perriss held a meeting with Robert Louis-Dreyfus, Saatchi's new chief executive, last week and now plans to press ahead with expansion.

The long-term trends in European media augur well for the growth of centralised buying. As new television channels come on stream and audiences fragment, the media owners will come under pressure to accept new forms of advertising like sponsorship and barter syndication. These are exactly the sorts of area where centralised buying groups can play an important role. PMI already does so. Carat intends to follow suit.

"The media market is changing," says Peter Scott, chairman and chief executive of Aegis. "If you look three or four years ahead there will be four major media buying groups in Europe. The others will simply not be able to afford to compete."

Even the sceptics accept that change, of some sort, is inevitable. "We recognise that some markets, like France, have changed dramatically," says Martin Sorrell. "Our agencies must respond whether we like it or not."



Incentive for growth

INCENTIVE travel is probably one of the most glamorous – but least understood – parts of the marketing mix. The idea of motivating staff and attracting customers through the lure of travel was traditionally seen as a rather down-market promotion used mainly for the benefit of car dealers.

But, as a survey and report from leisure consultants Greene Belfield-Smith (part of Touche Ross management consultants) shows, incentive travel is not only big business but is also becoming more widely used in sectors ranging from accountancy firms to advertising agencies.

Greene Belfield-Smith's report, which concentrates mainly on the experience of European companies, shows that $16.9bn was spent last year by companies on incentive travel worldwide.

The more developed North American market accounted for some $8.8bn, while European companies spent a total of $6.4bn. The rest of the world accounted for just 10 per cent of total spending.

Yet such is the level of demand identified by the survey that Greene Belfield-Smith forecasts a market value of $56bn by the end of the decade. The consultants see eastern Europe as one of the main beneficiaries of the projected growth, at the expense of traditional incentive destinations in western Europe such as Spain.

The survey shows that European companies spend, on average, just under $1,000 per delegate on a three-day incentive trip in the same country. A destination to a different European country will cost nearly $2,200 per delegate for six days; while a long-haul destination will cost $3,200 per delegate and last up to eight days.

About half of all companies which use travel as an incentive organise their own programmes, with the marketing department in most companies deciding on the destination.

A weekend in Paris remains the most favoured incentive for a short trip, with a "luxury holiday on an exotic island" seen as the most desired long-haul trip.

The European Incentive Travel Survey 1990, Greene Belfield-Smith, Victoria House, Vernon Place, London WC1B 4DB. £150.

David Churchill

TECHNOLOGY

Colour copiers are becoming more sophisticated, but their usefulness is constrained by price, **Laura Blair** reports

A tool for artists and office workers

Colour copying has begun to develop with a vengeance. Suppliers are citing market research that shows that in three or four years 60 per cent of all copying will be in full colour, 40 per cent of that general office copying.

Compared to the first full-colour copiers launched more than 10 years ago by Xerox and Canon, machines now are faster, smaller and more affordable. Canon, Kodak, Ricoh, Panasonic, Konica, Sharp and Brother are the chief manufacturers in a market expected to grow by 50 per cent a year.

Some of the new machines are more than straightforward copying devices. They incorporate digital editing and formatting features which enable them to treat originals more as raw materials in a process of new creation. With them the colours, or colour accent, of an original can be changed; images can be enlarged, reduced, tilted, rotated, reversed or distorted for artistic effect.

Post-graduate illustration students at the Royal College of Art are using a Canon colour laser copier as a form of digital lithography, both to experiment with materials and technologies and as a medium in its own right.

According to RCA research fellows Simon Larbalestier and Richard Caldicott who are supervising the work, the directness of the results encourages a spontaneity which printing with traditional lithographic plates cannot match.

Colour copiers are also being used creatively at the Dutch children's clothing manufacturer Oilily, famous for its brilliant designs.

"Sometimes the copier has even more to offer than the design computer. We can, for example, immediately see how a sweatshirt logo will look in different colours. We used to have to wait for the material to be printed," says graphic department head Jean Philipse.

The future of colour copying for general office use is much less clear.

Market research from Dataquest estimates that in the US the colour copier market will reach $1bn by 1993. Not surprisingly, the notion that a little colour can drive home the message of a drab memo is being cultivated with some vigour. "Colour can increase readership of a memo by 32 per cent compared with black and white, increase retention by 26 per cent and raise a buyer's inclination to act by 22 per cent," claims Kodak.

Unfortunately, colour technologies are invariably slower and more expensive than black and white. The fastest manage speeds of five to seven pages per minute off machines which range in price from about £5,000 for basic models to about £22,000 at the high end. A typical black and white office copier will cost well under £5,000 and print at least three times faster than the fastest colour models.

Plainly, no colour copier is suitable for bread and butter office use, even though some of the latest machines have been made more appealing by offering a b/w option at speeds of 20 copies per minute or more.

Colour copiers have to do two things: separate the different colours in the original into primary colours, and then recreate the original colours on the copy. Five technologies are being used to do this: analogue xerographic; digital xerographic; photographic; encapsulated ink; and bubble-jet.

To "see" and separate the original colours, all these methods use a light scan and either an optical (analogue) or electronic (digital) method. The analogue arrangement involves the use of lenses and red, green and blue filters mounted on a turret mechanism, each filter letting light of the same colour to pass through while blocking all others. Digital machines use an array of charge coupled devices (CCDs) tuned to red, green and blue filters to convert light signals into electronic ones. The advantage of this approach is that it enables the image data to be extensively processed and "edited" before it is printed.

There is more variation when it comes to putting the colour on the paper:

- Xerographic copiers (also called electro-photographic) work like conventional b/w copiers using light signals to create electrostatic charge patterns on light-sensitive drums. This latent image is then cascaded with coloured toners. These are mixed in varying proportions to match the colours of the orginal and reproduce them on the copy. Mixed, they can produce any colour, including black. The colours are heat-fused on plain paper. Analogue xerographic colour copiers are supplied by Xerox, Sharp, Kodak, Minolta and Ricoh. Only Canon and Panasonic supply digital models.
- Photographic copiers convey the original image to photosensitive paper. They are really little photo labs in a box and usually require a water supply, although Konica has a model that uses a dry photographic process.
- Encapsulated ink "Cycolor" technology was developed by the US company Mead and leased to Brother, Sharp and others. A master of special copy paper is impregnated with capsules (cyliths) of coloured ink. When exposed to light, the capsules soften. They are then put through pressure rollers which cause the capsules to burst, transferring the ink to plain paper.
- Bubble-jet, a variation of ink-jet technology developed by Canon, uses coloured inks contained in a printing head composed of fine nozzles. Each nozzle contains a tiny heater which, when activated, causes a bubble to eject a droplet of ink on to the paper. In cooling, the bubble contracts and pulls in fresh ink. Thousands of bubbles can be generated per second.

Canon is one of two makers offering digital electro-photographic technology

The finer distinctions between machines turn on how well they cope with continuous tones. Xerographic colour copiers use stable, translucent colour toner which is mixed on the paper itself, either as a simple carpet of colour (analogue) or in dots of different colours (digital laser).

To merge one colour into another, analogue machines use a halftone screen to expose the different colours. This is a transparent sheet printed with a checkerboard pattern of clear and opaque panels. Light shone at it penetrates the clear squares and exposes the areas beneath. These do not print; the unexposed bits do. Repeating this process with screens for red, green and blue gives the separation and, when printed, the blend of colours.

The printed dot size varies with the intensity of light passing through the screen. Less intense ambient light bleaches colour from adjacent dots. Hence even "white" areas have a regular pattern of small coloured dots in them.

The trouble is, if you copy and enlarge a photo which has already been reproduced by the halftone process – a page from a magazine, for example – everything gets made bigger in the same proportion. So, from a normal reading distance the result may end up being unintelligible.

Digital laser copiers reproduce a matrix of picture elements (pixels) and create colour shading simply by varying light intensity to alter the patterns of different colour dots – density is the same, and definition as sharp, whatever the enlargement. The disadvantage of digital copiers is that they cannot reproduce true curves, only very close approximations by plotting dots on X/Y axes. Yet despite the arguments of those with analogue copiers to sell, the eye can scarcely tell the difference.

Encapsulated ink machines bypass both the colour separation process and the need for colour toner. They are therefore mechanically and electronically simpler, smaller and less than half the price of xerographic machines, analogue or digital. The trade-off is that they are slow (one copy per minute) and expensive to operate. The cost of a copy made from an encapsulated ink master works out at about 45p, twice that of xerographic machine copies.

Photographic copiers use more expensive materials still and, in order to keep the hardware costs down, do not usually provide enlargement or reduction. Their editing ability under software control is nil. This makes them worse than digital copiers at handling originals that have already been printed by halftone screening: the result is an optical phenomenon that produces a wavy (moiré) pattern which digital copiers are able to suppress through their software. However, for reproducing photographic prints or artwork their quality is unquestionably best of all.

Bubble-jet technology has no intrinsic limitations, achieving resolution and colour quality comparable to traditional offset printing, while dispensing with the mechanical handling of toners. Moreover, bubble-jet machines have no size limitations caused by the size of the photo-receptor drums used in all xerographic machines. Potentially therefore, bubble-jet may be the best colour technology of all – though only if the price comes down. The only current bubble-jet colour copier is a specialist machine from Canon which prints to A1 size and costs £70,000.

The typical office copier still handles mostly words and functions largely as a replacement for carbon paper. With this sort of use, copying in colour at five per minute instead of in b/w at 60 per minute makes no sense.

Office needs may change. The future may prove to be less about copying words and pictures on sheets of paper than linking printers to computers. A colour digital copier could easily be converted into a computer printer by fitting it with a data controlled light source enabling it to receive the image directly from the computer. This would provide a colour scanner/printer in one device.

Canon has made progress in this direction by introducing an intelligent processing unit for its top digital colour copier. This can store scanned images for later processing, display them on a monitor before printing and link (via an analogue interface) to a still video player.

Crystals line up

Clive Cookson on an advance in superconductivity research

The prospects for commercial exploitation of high-temperature superconductivity are improving rapidly, as scientists begin to discover how to make superconductors carry electric current in bulk. A significant advance is reported in today's issue of Nature.

The first "warm superconductor" – a ceramic material that lost all electrical resistance at a temperature above that of liquid nitrogen (minus 196 deg C) – was discovered in 1986. The following year saw a worldwide explosion of superconductivity research and of popular speculation about the potential for high-temperature superconductivity to transform industries from transport and electronics to power generation and transmission.

Disillusion set in as researchers came up against formidable obstacles to the practical application of warm superconductors. The most serious problems were that they could not carry the large currents that would be required for uses outside the laboratory. The new ceramic materials were superconducting only in small grains or thin films carrying tiny currents. By last summer scientists were expressing serious doubts about their ever being suitable for applications such as electric generators.

But the last year or so has seen renewed progress in superconductivity research. Nature carries a particularly encouraging report from the University of Houston, a leading US research centre. Paul Chu and his colleagues have developed a "continuous" production process for making bars of superconducting yttrium barium copper oxide.

Although the largest bar made so far in Houston is only 5 cm long by 0.5 cm wide and 0.3 cm deep, the process could in theory produce bars of any desired length. The key to its success is to make material with a consistent "grain;" all the constituent crystals are lined up in one direction, along which current can flow with minimum loss.

The Houston paper follows a report last week that Japanese researchers at the Central Research Institute of the Electric Power Industry (Criepi) had developed a new superconducting wire designed to carry alternating current. It has the potential to improve greatly the performance of electric power equipment such as generators and transformers.

Many other research centres, including AT&T Bell Labs and the Argonne and Lawrence Livermore National Laboratories in the US and Southampton University and ICI Advanced Materials in the UK, are also producing superconducting materials with improved current-carrying capacities. Current density has been increased by creating defects in the crystal structure as "flux pinning sites."

Pirelli, the Italian wire and tyre manufacturer, recently signed a partnership agreement with American Superconductor Corporation (ASC), a venture capital start-up company formed by researchers from the Massachusetts Institute of Technology, to develop and manufacture superconducting cables for commercial applications. ASC has managed to make ceramic superconductors less brittle and more flexible by combining them with silver.

Yet many problems remain. As Neil Alford of ICI Advanced Materials says in Nature today, "cables kilometres in length with high current density are still a long way off."

Researchers have made less progress towards raising the temperature at which the new materials remain superconducting than in improving their current density and mechanical properties. The highest temperature at which superconductivity has been proved is minus 148 deg C.

Despite tantalising rumours of superconductivity at much higher temperatures (around minus 10 deg C) the "room temperature superconductor" is still a dream.

The first commercial applications of high-temperature superconductors will reach the market very soon, as thin films in small electronic devices, starting with ultra-sensitive sensors. Large-scale applications, such as superconducting magnetic coils to store vast amounts of energy and magnetic levitation systems for trains, will have to wait at least until the late 1990s.

BUSINESS LAW

Scotland as an international commercial arbitration centre

By Lord Dervaird

PART OF the Law Reform (Miscellaneous Provisions) Scotland Bill, currently making its way through Parliament, seeks to bring into operation for Scotland the Model Law for international commercial arbitration agreed to by the United Nations Commission on International Trade Law (Uncitral).

Before its conception, Uncitral had already formulated and published a set of Model Arbitration Rules, designed for adoption consensually by virtue of express, *ad hoc* incorporation into individual arbitration agreements.

There was also in existence the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the 1958 New York Convention) which created a code for the enforcement of foreign arbitration awards and set out the limited grounds on which enforcement could be refused.

Uncitral, however, had identified several problems arising from the diversity of domestic laws among the 90 states which were party to the New York Convention. These were on their approach to the mechanics of international arbitration on matters such as the powers of arbitrators, the conduct of arbitrations and the scope for judicial control.

The suggestion was made therefore that a draft uniform law on international commercial arbitration procedure could be used as a vehicle for harmonisation which would help overcome these problems. This law was also to take into account both the New York Convention and the Uncitral Model Rules.

The need to achieve consistency with the Convention and the Model Rules led to some difficulty in finalising the Model Law. But it was finally adopted by Uncitral in June 1985 with a recommendation to UN member states that when they came to enact or revise their arbitration laws they should consider using the Model Law.

The UK government asked committees in both Scotland and in England and Wales to examine the Model Law and to advise on whether and to what extent its provisions should be implemented in domestic legislation.

The Scottish Advisory Committee on Arbitration Law, which I chair, recommended to the Lord Advocate that the Model Law should be adopted for Scotland.

We are delighted that the Government is taking this early opportunity to implement our recommendation and expect it to be operative as law by the start of 1991.

It is not sufficiently appreciated that the law relating to arbitration is quite different in Scotland from the rest of the UK, and in particular England. The single most important difference at common law is that Scots law always recognised and supported the freedom of parties to contract and go to arbitration without interference by the Courts.

Provided the arbiter (the Scots word for arbitrator) did not stray beyond the bounds of the questions the parties had agreed to entrust to him for decision, and provided he did not breach the rules of natural justice in reaching his decision, for example, by hearing one party only, the Courts would not interfere. On the contrary they would support the arbiter and enforce his award.

In complete contrast to England, whatever the arbiter had decided was a matter for him. He was entitled to decide any question of law arising in the course of the arbitration and the Courts had no power to intervene. The result was that most arbitrations in Scotland were conducted speedily and efficiently in private and with no possibility of appeal and its consequent delay and expense.

I say "was" because that system was changed by statute in 1972 to one akin to that in England whereby a case could be referred to the courts on a question of law arising in the course of the arbitration. Parties can still contract so as to exclude the jurisdiction of the courts, but unless they do so the possibility of interference by the courts and consequent delay is obvious.

This feature needs to be emphasised because one reason why the UK as a whole has been unattractive to many people as a place to hold international arbitrations, is the well founded fear that referring a point of law raised by the arbitration to the courts or a similar procedure could and would simply be used as a means of delaying progress.

With the adoption of the Model Law that fear must vanish so far as Scotland is concerned. It is clear that the philosophy of the Model Law fits very well indeed with what has been a cardinal feature of the Scots law on arbitration for centuries.

Scotland is now well placed as a centre for the conduct of international commercial arbitrations. From 1991 it will be the only English speaking country in western Europe where the Model Law will apply in virtually unaltered terms.

Many other countries have adopted, or are in the process of adopting, the Model Law, and the businessman or lawyer in Australia, Hong Kong, and many provinces of Canada and parts of the US, to name a few, will be able to arbitrate in Scotland in the knowledge that the applicable law is the same as in his own country.

The Model Law sets out the legal framework within which the arbitration must take place. The actual conduct of the arbitration may be greatly eased if detailed rules are chosen by the parties to govern the way the arbiter is to conduct the case.

In Scotland the Uncitral Model Rules may readily be adopted if parties so desire. Other sets of rules prepared by the Law Society of Scotland and the Chartered Institute of Arbitrators (Scottish Branch) are also readily available.

The Scottish Council for Arbitration (Sc Arb) is preparing an addendum to the Uncitral Model Rules to be available for use when the Model Law comes into force.

The framework is there for when the Model Law comes into force. But a framework is not enough without the human and material resources to provide the services. These exist in abundance. Scotland has a flourishing commercial and financial life. The creation of the Scottish Financial Enterprise and its activities have demonstrated the extent of commitment and expertise at that level.

On the legal front Scotland can boast a large number of firms of solicitors with commercial and city expertise, who have world-wide links and have great skill in the techniques of litigation and arbitration.

The Faculty of Advocates, the Scottish Bar, contains highly skilled specialists in the relevant branches of the law as well as in the techniques of case presentation and is committed to enhancing and improving these skills.

Both legal bodies (and many others) have physical facilities available for the conduct of arbitrations, and in the big cities there is easy access to linguistic talent. The universities are also able to provide such facilities in large measure.

The Scottish Council for Arbitration was formed two years ago to draw together people from different disciplines with an interest in arbitration in order to enhance the availability and efficiency of arbitration services in Scotland and for Scotland.

In two years considerable progress has been made. It has formed close links with other arbitration bodies such as the ICC and the London Court of International Arbitration, and Sc Arb is now able to offer those seeking arbitration in Scotland access to the services they require.

It is important to bear in mind that all Scots commercial lawyers have to be competent in comparative jurisdictions. In the nature of things they will frequently have to consider the law not only of Scotland but also of England, in addition to European Community law considerations.

So by habit and cast of thinking they are well adapted to giving due consideration to the needs of foreign clients. The case for Scotland as an arbitration centre is very strong.

Two other factors should be borne in mind by parties seeking a centre to conduct the arbitration of their commercial disputes. The cost of arbitration can be a very significant consideration. In that respect it is fair to say that without in any way lessening the quality of service, Scotland is not nearly so expensive as some of the other centres of international arbitration.

Second, it can be no bad thing to conduct arbitrations in an environment which is efficient and pleasant. Scotland offers ample scope for that.

The author is chairman of the Scottish Council for Arbitration. Inquiries about Sc Arb should be sent to the Director/Secretary M.E.L. Weir, WS, 46 Bruntsfield Place, Edinburgh, EH10 4HQ.

CINEMA

Crashed out in Cannes

The 43rd Cannes Film Festival was the despair of punters. Which horse, from a dozen sturdy contenders, would romp past the post to seize the Palme d'Or?

To judge the prizes, no one was more bewildered by the breadth of choice than the jury itself. "Do not use your intellects, use your central nervous systems," president Bernardo Bertolucci is said to have urged his jurors early on. Strange advice. Does Signor B *have any idea of the state of* people's nervous system after two weeks in Cannes? If magnified *and put on a chart*, it would resemble a nasty traffic accident in midtown Hong Kong.

Never mind. The jury consulted its nerves and chose, not surprisingly, a film that also resembled a nasty traffic accident: this time in midwest America. David Lynch's *Wild At Heart* is a semi-deranged road movie from the director of *Blue Velvet*. Nicolas Cage and Laura Dern are the two unstable youngsters fleeing a criminal past (his) and a parent-tyrannised present (hers). As they career across the southern states, they meet such only-in-a-Lynch-film oddballs as private eye Harry Dean Stanton, psychopath Willem Dafoe and nothing-in-particular Isabella Rossellini, wearing an orange wig and living inexplicably in a Texas shack.

We have just two things to say about this film. First: it is fast, furious and colourfully scripted. Second: it is structurally a total mess. Where *Blue Velvet* smuggled its stylistic subversions into a taut and involving story, producing the aesthetic tensions that create a masterpiece, *Wild At Heart* is all subversion with nothing to subvert. We look forward eagerly to Lynch's next and surely better disciplined movie.

But then – *let us be fair* – what could the jury have honoured instead? Two of the more ambitious films, Fellini's *The Voice Of The Moon* and the Tavianis' *Night Sun*, were shown out of competition. And so was the best film of all at Cannes, Paul Schrader's *The Comfort Of Strangers*. Scripted by Harold Pinter from novelist Ian McEwan's creepy masterwork about a young English couple corrupted by two Venetians, it marries quirky dialogue to a dazzling visual bravura. Schrader turns Venice into an opium dream of bleeding sunsets and Oriental domes, prowled with perfect terror by a perfect cast.

But instead of competing for prizes, Natasha Richardson, Christopher Walken and Rupert Everett were there on closing night handing them out. *Rough justice. Thank* heaven, amid the miscarriages, the jury saw fit to do real justice to three deserving honorees.

Krystyna Janda was named Best Actress for a mega-watt performance in *The Interrogation*, a newly un-banned 1980 Polish film about Stalinist terrors. Gerard Depardieu won Best Actor for *Cyrano De Bergerac*, winning by a nose over our own Dirk Bogarde, favoured for Tavernier's *Daddy Nostalgie*. And director Idrissa Ouedraogo from Burkino Faso, for his exquisite *A Question Of Honour* (already praised on these pages), shared the runner-up Grand Jury Prize with Japan's less exquisite *The Sting Of Death*.

Not for the first time at Cannes, as the evening wore on and semi-precious prizes were handed out to those missing out on gold (including Britain's Ken Loach whose *Hidden Agenda* secured a modest Prix du Jury), *it* began to seem more of a distinction not to win than to win. Prizeless: Jean-Luc Godard, whose *Nouvelle Vague* was fearlessly, nay gloriously perplexing, even to those who could follow the overlapping French dialogue. Prizeless: Giuseppe Tornatore, whose sweetly comic Marcello *Mastroianni* vehicle *Stanno Tutti Bene* (*Everything's All Right*) seemed better to me than his 1989 prize-winner *Cinema Paradiso*. Prizeless: the Sino-Japanese melodrama *Ju Dou*, from the blazing hand and eye of director Yang (*Red Sorghum*) Zhimou.

Less controversially, there were films that went prizeless at Cannes because they were not in contention. Either they were shown as non-competitive galas in the main event or they surfaced in the Direktors Fortnight or the Market. Three such movies – as we say adieu to Cannes 1990 – deserve special mention.

* Charles Burnett's *To Sleep With Anger*. Eerie all-black comedy about a Satanic trickster (Danny Glover) who visits a family in the guise of a long-lost friend and gently, lovingly *sows destruction*.

* *The Little Mermaid*. Best Disney animation feature for years. Colourful designs, a curvaceous heroine and a calypso-singing, show-stealing crab.

* Federico Fellini's *The Voice Of The Moon*. Signor F creates another warmly certifiable Italian fresco. But be warned. The film *opens* and closes with knock-out visual set pieces: a mist-wreathed cemetery at night, a captured moon blazing whitely from a giant barn. But between-whiles, this two-hour tale of a puckish innocent (Roberto Benigni) seeking the meaning of life and the probability of an after-life is long on talk, *shorter on plot and spectacle*.

★

Also shown non-competitively at Cannes, where it opened the festival, was Akira Kurosawa's *Dreams*. This now comes to London (Lumiere, Screen on the Hill, Gate Notting Hill, PG).

Old men forget, said Shakespeare. But they can also unstoppably remember. The 80-year-old Japanese master who gave us *The Seven Samurai*, *Rashomon* and *Kagemusha* has inserted a poker into the still-fiery embers of his memory and dream life, creating a movie that is like airborn sparks glowing and dying before your mind's eye.

Eight episodes: each based on a Kurosawa dream. Like the sparks, the movie's own inspiration glows and fades from scene to scene. The dimmest disappointment is the final "dream," where in a village Disneyish with water-mills an old man (played by veteran Japanese star Chishu Ryu) natters on about the damage we are doing to the environment.

Please, Mr Kurosawa. We do not look to great film directors for the kind of pieties we can get from a Green Party PPB. But at other moments the movie flames into passion and beauty. Kurosawa has given us nothing fiercer and more mysterious than the dream episode in which a party of mountaineers struggle up a snowbound slope. The wind howls like a demon's sighs, the blizzard torments, the red flag of a tent crackles like fire.

Here and in the deadpan terror of "The Tunnel" – a dream *of war in which soldiers* with death-white faces march forth from a tunnel to confront the dreamer-hero (Akira Terao), lashed on by the barks of a hideous dog – Kurosawa uses simple, primary colours and simple, terrifying sounds to create a dream world we instantly know.

Dreams has its eccentricities. How do you respond to the idea of director Martin Scorsese playing Vincent Van Gogh? In "The Crows" our hero meets the earless wonder in a cornfield and then bounds on through his bilious paintings. Or how about a garishly surreal panorama of Mount Fuji in flames, put together for Kurosawa by George (*Star Wars*) Lucas's Special FX team. (Hollywood's other boy genius Steven Spielberg is credited as the "presenter" of *Dreams*.)

This is a strange, uneven, flickering film. It may be the closest we have come to the autobiography of an artist's unconscious. But like anyone else's unconscious, an artist's can have a fair proportion of the simple-minded and forgettable jostling with the profound and unforgettable.

Modern cinema makes strange bedfellows. After the spectacle of Lucas and Spielberg bedding down with Kurosawa, we have Nicolas Roeg's *Witches* (Cannon Shaftsbury Ave, PG), in which the director of *Don't Look Now* and *Eureka* shares a creative pallet with Jim Henson, late Muppet master. Adapting Roald Dahl's nightmare for children about mousy transformations in a British hotel, Roeg displays wicked wit: both in his handling of the performances (Anjelica Huston as chief witch, Mai Zetterling as Granny) and *his harnessing of* Henson's creature effects.

These include grown women turning into witches and young children turning into rodents. "Every child in England shall be rubbed out!" screeches Ms Huston as she and her coven, masquerading as an RSPCC conference, turn a charming seaside hotel into a mousy Armageddon. Even Rowan Atkinson's unctuous hotelier is powerless to help. He twitches, he glooms: he is British phlegm confronting the unknowable.

The movie bounds on into this dimension from its giddy, aerial credits sequence (the camera roaring over snowy mountains) to the transformation scenes themselves. Meanwhile children of all ages will *be tickled by scenes of mice* learning to walk tightropes, sinister ladies turning into snakes and bowls of hotel soup harbouring secrets that would astonish even Egon Ronay.

Roald Dahl has, we understand, cursed the film and its makers for betraying his novel. But then Mr Dahl's opinions are resistible on many things, including most recently Mr Rushdie. *The Witches* is a sweet, funny, demonic movie. It should refresh Nicolas Roeg's career as surely as it *leaves us a testament to the* glory that was Jim Henson.

Nigel Andrews

Scene from Kurosawa's 'Dreams:' non-competitive at Cannes, now in London

Body Language

STEPHEN JOSEPH THEATRE, SCARBOROUGH

Time was when the national *critics ignored the latest* Alan Ayckbourn bursting upon the seaside air at the Master's *home base. They preferred to* wait for the starrier production in London. But on Monday the Stephen Joseph Theatre in the Round was not only packed to the gunwales with national scribes but rang with the mirthless, knowing cackle that bespeaks a consciously first night audience.

Coincidentally, the new work itself, for the first time in my experience, left me wishing for a blue pencil, a pair of scissors, the delete button on the word processor. It begins promisingly. A swish and discreet private clinic is currently playing host to two very different celebrities: an octogenarian surgeon from Eastern Europe whose speech seems a cognate of Serbo-Croatian mixed with Czech and Slovak, and whose controversial experiments in transplant have caused scandal in the past; and a Page Three girl, Angie, a pneumatic, long-legged blonde bearing all before her, being operated on (it transpires, after some teasing foreplay from the author) to have a mole removed from her bottom.

From local radio comes the dowdy frump, beer and chocolate-bloated bulk lumpily covered by what appears to be a flowered marquee, to interview the old surgeon. A Fleet Street *papparazzo* gatecrashes the clinic to snap Angie. As luck would have it, he is the ex-boyfriend of fat Jo; and comedy of sexual tension unfolds as the harassed interviewer competes with the *eye-catching* poses of Angie, and the venerable surgeon (played with decrepit but undeniable libido by Nigel Anthony) draws unflattering comparisons. The helicopter of Angie's husband, a 50-year-old rocker on the lines of Gary Glitter, who acknowledges applause with a pelvic swivel-*and-thrust*, brings things to a - er - head with an offstage accident. The surgeon's cry of "Save the heads!" must be the most grimly funny curtain-line Ayckbourn has penned.

For the rest of the play the writer toys with his brilliant *idea* but comes up with nothing more savage (bar sexual references) than W.S. Gilbert *might have* fantasised. Their heads transposed, the girls try to adapt to the alien bodies they are lumbered with ("I'm – it's – very strong, aren't you?"). The undersexed model is amazed by her new body's appetites, not least sexual, its sweat, its unexpected hair. At first determined to recapture their own, they come to a sisterly agreement, each respecting the other's body as a caretaker.

On the way there are Ayckbourn's usual flashes of beautifully judged conversational inanity – "Go home and have a few people," says the frigid model soothingly to her sexually rapacious husband, "you'll feel better" - and satire on the *fast-talking, fast-swerving* morality of marketing flesh. But for stretches of the second act the play hangs fire as if the author were uncertain how to resolve the situation. Suabbles over exactly whose nails Jo is biting as she champs at immaculate Page Three digits, and asking each other permission for *emotional* and career decisions concerning the body in trust, fizzle out. Ayckbourn is notable for his sympathetic treatment of women characters, and here is implying a moral lesson: that they should be free to find their own identity despite image-makers and masculine stereotyping. But here the men are mere shadows, remnants of what might have been a stronger satirical look at medical and journalistic ethics today.

As usual the author produces first rate performances: from Tam Hoskyns, her Jo equally convincing as pachydermal or sleekly robotic; Lia *Williams' gorblimey* Angie, sense and heart coming to the fore; and from Peter Forbes *whose press photographer*, like Geoffrey Whitehead's smooth head of the clinic, hints at incisive characterisation not honed enough by the writing.

Martin Hoyle

Little Love

LYRIC THEATRE, HAMMERSMITH

It is a fact that ten per cent of couples in the UK are infertile. *For many of them it is a tragedy* which they may try to overcome by considering adoption; but this solution is often not possible because there are so few babies available for them to adopt. This large area of private sadness in our national life would seem to be an unlikely premise on which *to construct* a farce. Yet this is what Stephen Fagan has done in *Little Love* with predictably distasteful results.

He posits a couple of criminal doctors: one has a practice in Harley Street and the other has a private maternity clinic in which he delivers unwanted babies, paying the natural mothers a few hundred pounds to hand over their new-born offspring. These infants are then passed immediately to the infertile wives of his rich clients.

They go through a period of sham pregnancy at a rate of £20,000 a child. Inevitably the plot turns on a young unmarried mum (Isobel Reid) who, having been delivered of her baby, decides she wants to keep it after all. Meanwhile it has already been passed on to the affluent but barren married lady (Ciaran Madden) who has given it a name and become very attached to it.

Alastair Muir

Ciaran Madden

The spectacle of the natural mother vying for possession of the child with the adoptive mother while the doctors attempt to reassure both mothers may be manipulated to provide a few ghastly comic routines but it soon runs out of steam.

The doctors then resort to bribery but the natural mother refuses, even for the whole of the loot, to relinquish the child. This has a certain poignancy. Brian Protheroe plays the *gynaecological fixer as if* he were a second-hand car salesman swearing that the mileage is genuine and Benjamin Whitrow, as his reluctant accomplice, gives a mournful gravitas to his bedside manner. It would have been ideally suited to the role of the butler in the recent production of *Thark* at this venue.

Before we are through Fagan suggests there is a vast international network of crooked medics flying in pregnant girls from all over Europe, and he produces a pregnancy from Germany (Lynn Kitch) to resolve the situation. It is a desperate denouement and *there is nothing the director* Justin Greene can do to make it seem plausible.

I note from *Radio Times* that this play is also being presented on Monday June 28 on Radio 4 in a completely different production with Alan Howard and Peter Sallis. Perhaps it will seem much funnier *when you cannot see anything* that is happening on stage, but I doubt it.

Anthony Curtis

The Maple Tree Game

COURTYARD THEATRE, LEEDS

The sign with which Leeds City Council welcomes us to Quarry Hill Car Park heralds the hideous unsmiling fortress that the hapless traveller identifies as the new West York*shire Playhouse, flanked by* waste ground, bus station and police HQ. Misleading signs take him eventually to off-hand staff who direct him to blocked entrances not yet in use. Well, it is just the launch of repertory in the theatre's new studio space, The Courtyard.

A brick box recalling the Royal National's Cottesloe, the flexible area is at present arranged with an end stage: raked stalls, two levels of side galleries. The tiers of seats shake ominously as playgoers find their places. Luckily the performance is rock-solid: a stylishly produced, beautifully acted treasure-trove of irony *and admonitory political* insight.

The Czech dissident writer Pavel Kohout has dramatised a novel by the Romanian Mircea Eliade. In Hugh Rorrison's translation it comes over as a wry, playful but unshakeably threatening slice of Kafakaesque satire. A gentle old profes*sor calls on a former pupil*, now a major in the Ministry of the Interior "somewhere along the Danube," much to the embarrassment of that career-officer – who promptly disowns his education. "My mother was a washerwoman – I am a true proletarian," he protests, like a character in a Monty Python sketch or cer*tain reaches of the British* Labour Party. But suspicion is aroused in the complex labyrinth of totalitarian bureaucracy; and the old man's blithely prolix reminiscences unwittingly lead to double-cross, denunciation and death, while he, installed in Cell Number Six with home *comforts and beloved parrot*, unconsciously feeds the ravenous paranoia of officialdom.

The exiled Kohout may be happily out of date in his references to his homeland, but the examples of China, Albania and God knows where else make this a chilling as well as a funny play. John Harrison's *production miraculously* gets the balance right, commenting on the ludicrousness of spies, interrogators (chief of whom is constantly having to send his uniform to the cleaners by the nature of his work) while evoking perfectly serious performances.

Designer Robert Jones' vast *studded walls slide apart* for glimpses of the outside world, notably the gilded boudoir where the female minister (Avril Clark) relaxes in Grecian draperies and garlands, not so much classical as Alma-Tadema (a nice touch of kitsch), before they thud together again. Offstage shouts, shrieks and shots ("Rat *control*," murmurs the major) remind us of the bloodshed behind the buffoonery.

Perfectly judged playing comes from a real ensemble. Peter Copley is the academic Scheherazade whose tangents off tangents as he rambles down the byways of memory provide the investigators with *the hunches and lateral leaps* that geniuses and paranoiacs have in common: he exudes civilised authority, a nice contrast with Andrew Readman's rigidly dutiful Captain and Ian Barritt's unstoppably upwardly-mobile interrogator – both performances superbly plausible, *well this side of* caricature while unmistakeably monstrous. And Timothy Bateson's dumpy moustachioed prison warder is a richly mid-European inhabitant of the world of Schweik and Kafka. The author was present to share the applause at Tuesday's first *night with a marvellous* company. Never mind the wasteland, feel the quality.

Martin Hoyle

The Floating Light Bulb

NUFFIELD THEATRE, SOUTHAMPTON

Few people venture into Brooklyn these days but the New York borough will live for ever in the theatre. Its claustrophobic apartments have inspired some of the best commentators on American domes*tic life*, notably Neil Simon, and now there surfaces an effective piece of reminiscence from Woody Allen.

This rare work for the stage had a brief off-Broadway run in 1981 and its British première is at the Nuffield Theatre until June 9. It is a little charmer, precisely billed as a bitter-*sweet comedy*.

Of course, rather unlikely, behind those decrepit Brooklyn walls lie every failing known to nature; the nagging mother, Enid Pollack (Sylvia Syms), is a drinker; the father Max (Sam Douglas) both bets and womanises; the younger son, Steve (Paul Russell), is half-way to *being a hoodlum; and the elder* son, Paul (Gian Sammarco), the Woody Allen clone, is an introverted, stuttering, loner whose one passion in life is magic because it allows him to hide away in his room, practising. Chance brings a small-time impresario (Lee Montague) to see Paul's foo*tling act*.

There follows ten minutes of excruciatingly affecting theatre where the superb Sammarco, unfortunately billed as The *Great Pollack*, plunges the audience into deepest pathos with his performance. He has the Woody Allen whine to perfection and is quite magnificent. Playing off him with equal aplomb is Lee Montague *as Jerry Wexler, the Jewish* impresario who has never left his mother and who lives off the earnings of a talking dog act. As Paul disintegrates and flees into his bedroom, Wexler offers Mrs Pollack an hour's blighted hope of a decent future.

The Floating Light Bulb is *the best expression* of Woody Allen's genius I have come across. Gone are the mock deprecatory one-liners and the "pity me for a sad genius" nudges. It is all splendidly sentimental, as old fashioned as a Hollywood movie of 1945, the year in which the action unfolds, but it does touch all *the emotions* and while not perhaps true to life as it was for many it certainly creates life as it was *for a few*.

The cast (which also includes Regina Reagan as the misguided young girl who will become the unfortunate second Mrs Pollack) plays it dead straight, something of an *achievement* on Robin Don's precipitously sloping stage. Patrick Sandford directs.

Antony Thorncroft

ARTS GUIDE

May 18-24

EXHIBITIONS

London

The Tate Gallery. The entire permanent collection has been rehung so that the visitor may now take a natural circuit through the newly restored galleries, from 16th century British painting through to the most recent of modern international art. It is a curatorial triumph.

Paris

Carte musées et monuments sold in museums and metro stations enable visitors to avoid queues at 60 museums and monuments, including the Louvre, Musée d'Orsay and Versailles.

Galerie Odermatt-Cazeau. 19th and 20th Century Masters. A thread of excellence runs through the exhibition, which begins with the Impressionists and ends with an abstract Picabia. Monet's Charing Cross Bridge floats in a haze of pinks and blues. The realism and heavy pathos of an early Toulouse Lautrec – Le Buveur – is in contrast to his Jane Avril, expressive of his mature period. Vuillard paints a trio in a cafe in large flat sombre-coloured cut-outs while his friend Bonnard spreads sunlight and contentment around a family luncheon table. Ends July 28 (42669268).

Petit Palais. James Ensor 1860-1949. A retrospective of 100 paintings, 130 drawings and etchings brings to mind Ensor's provocative boast of "I am mad, I am stupid, I am nasty". Born in the land of Jerome Bosch and brought up in Ostend in a shop of seaside souvenirs full of carnival paraphernalia, he peoples his nightmarish universe with skeletons and grimacing masks. Jarring mockery and garish colours add to the feeling of anguish and agressive rancour. Closed Mon, ends July 22 (42651278).

Musée d'Orsay. The Fragmented Body. Parts of the human body, or the incomplete body-form the leading strand of an exhibition beginning with ex-votos and reli*quaries and culminating in* a celebration of Degas, Bourdelle, Maillol and especially of Rodin with his masterly transition from realistic to abstract sculpture. Ends June 3, closed Mon, (40494814).

Brussels

Hotel Communal de Schaerbeek, Place Collignon – treasures of the commune. Works by Constantin Meunier, Jef Lambeaux and other Brussels artists of the *19th and 20th centuries, daily* except holidays. Ends June 11.

Isy Brachot. Portrait of the Pace gallery of New York. Calder, Dubuffet, Picasso, Rothko and others. Ends June 28.

Musée d'Ixelles. 71 Rue Jean Van Volsem. La Poetique des Peintres Italiens a l'Aube du XXe Siècle. Closed Monday. Ends July 15.

Musée Wellington-Waterloo. Inédits sur Waterloo commemorates the 175th anniversary of the Battle of Waterloo. Daily ends July 31.

Vienna

Museum für Volkerkunde has a marvellously exotic exhibition called Jemen, focusing on the world around the Queen of Sheba. Ends June 10.

Venice

Palazzo Grassi. Andy Warhol Retrospective. 250 works from the major exhibition organised by Kynaston McShine for the Moma in New York last spring, to which have been added about a dozen from private Italian collections. The show has since *toured Chicago, London and* Cologne, to end its tour at the Beaubourg in Paris this summer. Opening with Dick Tracy (1960) and closing with Warhol's version of Leonardo's Last Supper, done shortly before his death in 1987, the exhibition concentrates on the early works, 1960-1967, and the famous Marilyn, Liz, and Coca-Cola series *are shown to excellent effect in* a particularly skilful layout by Gae Aulenti, in collaboration with Pontus Hulten. Also included are numerous photographs of the factory, and excerpts from the films Warhol *made in the years 1963-68*, interspersed with comment from critics, writers and friends. Until May 27.

Rome

Palazzo Venezia. Art for Popes and Princes of the 17th and 18th centuries. Over 70 large and exuberant canvases from the country seats of Popes, Cardinals and the Roman aristocrary (Chigi, Barberini, Colonna, Pamphili etc.) in the area stretching south of Rome, once known as the Campagna Romana. Not surprisingly, most of the subjects are religious, but varying from the limpid and meticulous account by Van Wittel, of Pope Clement XI's visit to Albano to the splendid rest on the flight into Egypt by the Venetian Carlo Saraceni. Remarkable in the non-religious section are four oils depicting the four seasons by Mario Nuzzi, *known as Mario de Fiori for his* habit of filling every corner of his paintings with vast floral compositions of the sort more commonly associated with Dutch 17th century painting.

New York

New York Public Library. More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books, display the spirit and drive of the long effort to free the slaves. *Ends Sept 15.*

Tokyo

Tokyo National Museum. National Treasures of Japan. Painting, sculpture, calligraphy, craftwork, archaeological arte*facts, from prehistoric* times to the Edo Period. This is the first opportunity in 30 years to see as many as 200 of Japan's greatest works of art in one place. Closed Mondays.

National Museum of Western Art. Bruegel *and Dutch* Landscape. 58 paintings on loan from the National Gallery in Prague. The centrepiece is Pieter Bruegel the Elder's magnificent Haymaking, with its wealth of circum*stantial detail*, and the focus is *on the development of landscape* painting as a genre from its beginnings in about 1500 to the mid 17th century. Closed Mondays.

SALEROOM

A gear too high

The classic car market has gone too far, too fast – at least for Christie's in Monaco on Tuesday night. Its sale nudged £8m but in value only 23 per cent was sold. The race of the Ferraris was a non starter: its star item, a 1957 Ferrari 315S, which was expected to comfortably top £6m and set a record for a car at auction, failed to attract a bid. To rub salt into the wounds Sotheby's sold a Ferrari GTO on Monday for £6.8m in Monaco.

Christie's had a very powerful vehicle, so powerful that the International Sporting Commission banned all engines over 3 litre capacity after a fatal crash in the Mille Miglia, and so ensured that this model was one of only four surviving. Its history, plus the fact that such cars need expensive maintenance, costly transportation, and can only be enjoyed on private tracks, deterred potential buyers.

Minor consolation was the sale of a Ferrari 196 S Dino of 1960 for around £3m and a 1957 Ferrari 250 GT Berlinetta "Tour de France" for £2m.

For major consolation Christie's could look to a silver auction in London yesterday which *totalled* £2.86m, with less than 8 per cent unsold. The highlight was a pair of *Queen Anne wine coolers made* around 1710 by David Willaume which went for £770,000, *twice their high estimate*. They were part of a group of silver which was deposited in strong boxes in the bank of Glyn Mills in Lombard Street in 1831, used occasionally for the London Season, and then forgotten for over a century. Not surprisingly they are in excellent condition.

A Queen Anne ewer and basin from the same silversmith and source sold, strangely, below forecast, for £374,000 to the London dealer Armitage. All the silver bears the arms of the Wentworth and Johnson families who were joined in marriage in 1711.

At a *Christie's South* Kensington arms and armour sale two important re-inforcing pieces for the tilt from the Rosenblatt (rose-leaf) garniture of the Emperor Maximillian II sold for £71,500. Made of steel they consist of a grandguard and pasguard and belong to one of the most famous 16th century armour garnitures. The armour was made for Maximillian by Franz Grobschedel in 1571 and major portions are still in the old Imperial armoury in Vienna.

Sotheby's minor Impressionist sale went to form, with a total of £1.5m and 27 per cent unsold, confirming that only the masterpieces find buyers at high prices, and that demand is selective for the run-of-the-mill.

Antony Thorncroft

FINANCIAL TIMES

NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Thursday May 24 1990

Trade gives a shock

THE debate about entry into the Exchange Rate Mechanism of the European Monetary System was becoming somewhat ridiculous in a very British, clever-silly sort of way. If nothing else, yesterday's trade figures should inject a measure of realism into the discussion.

The "spin-doctors" in the Conservative Party have argued – persuasively, it appears – that bad results in the local government elections and a steep rise in the headline rate of inflation were good news. Theirs was a triumph of lowered expectations.

From this success, it was but a short step to a new definition of when the time will be ripe for ERM entry. One deducts the six months believed to be the honeymoon period of lower interest rates from the election date one first thought of – and there is the magic date.

The trade figures must disturb these calculations. They suggest that demand in the economy is still quite strong. They also indicate that the UK will have to go on attracting very large sums of money for quite a while to come. They strengthen the view that keeping interest rates high must be a condition of entry, not the ability to get them down prematurely its reward.

A current account deficit of £7.3bn in the first four months and of more than £5bn in both of the last two quarters is inconsistent with the forecast of £15bn for 1990 at the time of the budget. Worse, after noteworthy export growth, with volume (excluding oil and erratics) up 11 per cent over the year to the latest quarter, volume growth over the latest two quarters has dwindled to a mere ½ per cent. Meanwhile, imports are again growing faster than exports. Over the year to the latest quarter, import volume rose by a mere 3 per cent, but over the latest two quarters it rose by 2 per cent.

Current policy

This does not mean that current policy is not working. On the contrary, the slow increase in sterling lending announced this week suggests that it is. It might mean that entry into the ERM would not even lower interest rates because of the scale of the required capital inflow. Alternatively, entry might lead to a short-lived party followed by another massive post-election hangover.

The essential point in analysing entry into the ERM is that it will not immediately convince the two groups who matter most, wage bargainers and home owners (actual and potential) that the long-term inflation rate of the UK will converge rapidly on the West German. Moreover, such a rapid alteration in expectations has been undermined by the short-term electoral cynicism with which entry is discussed.

Repeated promise

If long-term inflationary credibility is small, then borrowing is being largely constrained by cash flow. Any reduction in interest rates that might follow from the expectation of short-term exchange rate stability is likely to occasion another rise in borrowing and spending. In fact, the Chancellor's repeated promise of lower interest rates next year may be sustaining borrowing and spending now.

If ERM entry is to be more than an electoral manoeuvre, the exchange rate floor must look secure, while the policy needed to curb domestic demand – of which high interest rates must remain a central part – still remains in place. This would require a broad band, with the present rate probably the bottom.

Electoral expediency suggests quite a different approach. It would suggest depreciation, followed by entry on a narrow band. Unless the fixed exchange rate were to reduce long-term inflationary expectations rather quickly, this strategy might occasion short-term delight, but it would ensure long-term pain.

ERM entry must not be viewed as another of those quick economic fixes that will deliver the British from hard choices and the Government from electoral unpopularity. A week may be a long time in politics, but – as inspection of German and French policy in the 1980s makes clear – five years is a short time in disinflation. If the UK is not prepared to stand that course, it will be entering the ERM in the wrong way, for the wrong reasons – and will fully deserve the consequences.

When the inspector calls

INSPECTORS appointed by the Department of Trade and Industry (DTI) lie at the heart of the British system of corporate surveillance. A House of Commons select committee report, published yesterday, into the working of the investigatory machine raises a number of questions.

First, how fair is the treatment that inspectors give to the individuals they investigate and censure? This question is connected, in the public mind, with three recent cases: the flotation of Blue Arrow by County Natwest; the takeover by Guinness of Distillers; and the purchase of House of Fraser by the Fayeds.

The inspectors' report in the Blue Arrow case singled out a number of individuals for censure. Several senior National Westminster bankers resigned as a result, even though their responsibility for supervising the department in which the malpractice had been committed was remote.

Lord Alexander, who has taken over as National Westminster's chairman since the affair, told the committee that he had found this "a simply awful process". He wants inspectors to avoid conclusions as to individual character or responsibility.

Lord Alexander's concerns for fairness are shared by the Bank of England and the Securities and Investment Board. Both wish inspectors to stick more closely to the letter of their DTI guidelines; they should be inquisitors not judges.

The prosecutors of the Serious Fraud Office disagree, however: "The very task of the inspectors is to give value judgements," they say.

Relative blame

The committee shares that view. Even if that conclusion is correct, however, inspectors should learn from the Blue Arrow case the importance of scrupulously weighing the relative blame assigned to individuals; and they should be aware of the likely consequences to the careers of those they censure.

In the Guinness case, a criminal trial is now under way. The court heard earlier this week that the only evidence the police had for arresting Mr Ernest Saunders, former chairman of Guinness, in 1987, was transcripts of interviews with DTI inspectors.

If the police had sought to interview Mr Saunders, he could have refused to answer their questions; but when questioned by the inspectors he had no such privilege. The Commons committee gave no opinion on this issue.

Lack of action

It did rather better on the second question it raised: how effective is the action that follows from an inspectors' report? The best current example is the Fayeds' purchase of House of Fraser.

The committee criticises the lack of government action in this case. More generally, since sufficient evidence for criminal proceedings may often be unavailable, the committee wants to see greater use of opportunities to sue under civil law available to the Government and to wronged companies and individuals.

So far, so sensible. The committee's enthusiasm for civil proceedings is more striking – and less commendable – when it turns its attention to the third question: in the special case of insider dealing allegations, are there particular problems of enforcing the law which require wholesale legal changes?

The committee wants the Government to consider a switch to the US system of civil cases and bargaining over penalties in this area. It wants to speed up the process of investigation and prosecution; and it wants consideration to be given to shifting the onus of proof from prosecution to defence in insider dealing cases.

Most of these changes are highly undesirable. The scale of insider dealing cannot merit such draconian action.

One final – less controversial – point made by the committee is worth recording. It points out that five successive Secretaries of State for Trade and Industry were involved in handling the House of Fraser case. It is not, surely, too much to ask that departments with important regulatory functions should be granted greater continuity of management.

ECONOMIC VIEWPOINT

Trade now stalled

By Samuel Brittan

The disappointing UK trade figures will not have been in vain if they serve to punctuate the mood of unjustified euphoria running through financial markets.

The roots of the financial euphoria were political rather than economic, namely a feeling that the Tories might after all win the next election. A peculiar theory has emanated from the camp of the Conservative chairman, Mr Kenneth Baker. This is that ministers will misuse EMS membership to slash interest rates, but that confidence in the EMS parity can be maintained until an early election.

However cynical one wants to be, these ideas are nonsense on stilts. To begin with, it is a highly risky approach. Suppose that the opinion polls do not allow an early election to be called after all. Then the Government could be faced with the embarrassing choice of either putting interest rates back up again, having a parity realignment, or even both. Moreover, the effects of a leading currency joining the EMS system are difficult to predict; and a sensible government would want a settling-in period before an election.

The cynical partisan approach also assumes that the electorate consists of idiots. One does not have to be a rational expectations fanatic to suppose that voters will see through a policy of jam today and cod liver oil tomorrow. Labour can be relied upon to point this out; and on this it will have the support of independent commentators.

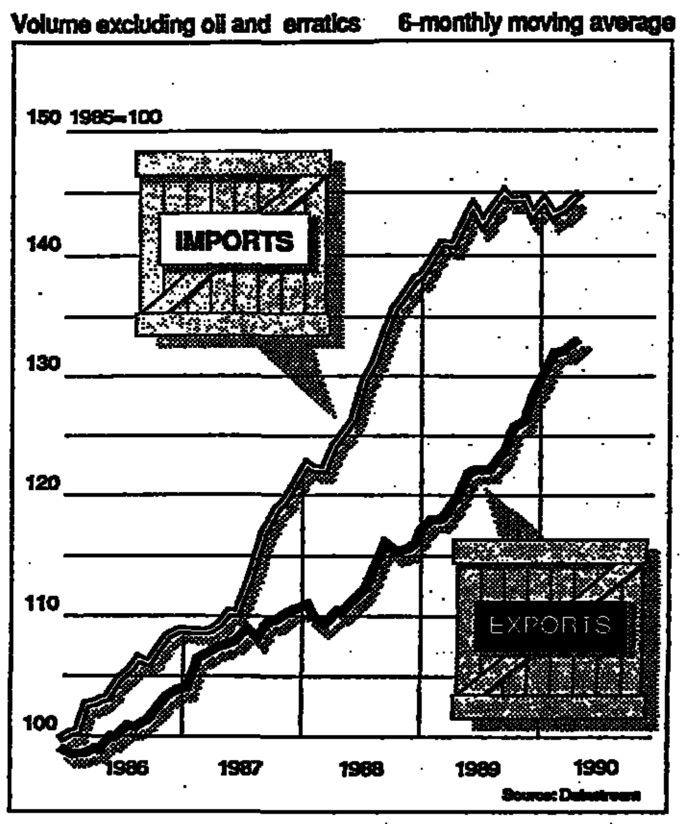
To take a specific example. Having for so long emphasised the underlying rate of inflation – now at 6¼ per cent – the Chancellor will not easily be able to switch to the headline rate, when the mortgage and poll tax distortions go, without anyone noticing.

In every past election-winning boom, ministers and even their advisers, believed in the economic policy they were following. The Treasury knights would have liked a slightly smaller tax reduction than that favoured by Harold Macmillan in the 1959 Budget, but they believed that some economic stimulus was required to get the economy moving after the Thorneycroft squeeze. In 1987, both Mrs Margaret Thatcher and Mr Nigel Lawson believed that the economy was fundamentally sound, as it probably would have been if she had not vetoed his EMS initiative a couple of years before.

There is no reason to suppose that either European central banks or Britain's Community partners will support ill-thought out British membership based on temporary political expediency; and without their support sterling will be very vulnerable.

The surest way to obtain political credit for joining the EMS is to do so for the right reasons – i.e. partly for European reasons and partly to give a shock to domestic inflationary expectations. That means with the intention of defending the joining parity and eventually locking it in as monetary union progresses. It means taking advantage of every transitional and technical device, such as a wide band above the present market rate, to postpone rather than bring forward interest rate cuts.

UK TRADE TRENDS



Last week, I mentioned that retail spending was still rising although at a slower pace than a year or two before. Since then we have had the April monetary aggregates. These show that M0, which the Treasury has repeatedly told us to take as the best indicator of domestic demand, is high above target on a one month, three months, or 12 monthly comparisons. Bank lending and the broader aggregates slowed down in April, but still do not look impressive on a longer comparison. If there had been a real squeeze we might have seen a temporary increase in the credit and broad money aggregates due to distress borrowing of which there is scant sign. The labour market figures, taking one month with another, show only a levelling out in unemployment.

The same story emerges from the latest trade figures. Readers will remember how I resisted the hysteria surrounding "the second worst trade figures ever" which appeared for March. But in truth the figures for April are no better. The entire improvement, in the current account was more than accounted for by erratics and oil.

The likely prospect is similar to that experienced by the US after its peak current deficit of the mid-1980s

However you look at the figures, there has been some recent slowing down in the growth of exports and some acceleration in imports. The table shows the movement of export and import volumes, excluding oil and erratics, over four month periods. After a period of level pegging, exports shot ahead in the final four months of 1989, while imports actually declined. In the first four months of 1990 export growth fell back and imports started rising again, more quickly than exports.

The intelligent teenager will wonder if even four month periods are long enough to gauge trends. I therefore arranged for a six months moving average to be prepared before I knew the April figures. This turns out to give the Government the most favourable picture with imports fairly level and exports rising quite steeply. Even here, however, a distinct slowing down of exports can be observed in the latest months.

There is yet another measure of underlying trend used by government statisticians known as "the Henderson average" covering 13 months. Interestingly enough this gives the same impression as the four monthly figures, namely a rise in exports relative to imports in the final few months of 1989, followed by a slight opening out of the gap in 1990.

As visible imports are 20 per cent higher than visible exports, a sustained period of rapid export growth, relative to imports, will be required to make much inroads into the current payments deficit. Invisibles are out for the count, as the official statisticians now estimate the balance here to be zero, although in truth they have little idea.

It now looks most unlikely that the Treasury's Budget estimate of £15bn for the current balance (compared with £21bn in 1989), which many analysts thought deliberately overcautious, will be undershot.

The likely prospect is similar to that experienced by the US after its peak current deficit of the mid-1980s. That is a stabilisation or slight decline in money terms and a gradual fall as a proportion of gross domestic product. Despite a lot of fuss and bother, the rest of the world has proved willing to finance it, and the currency recently in trouble was that of Japan which has run a surplus and does the financing rather than of the US.

In present British circumstances a current deficit is significant mainly as an indicator of domestic demand. A roughly stable or slightly declining current deficit, together with the domestic indicators, suggest that real demand in the UK is growing less rapidly than productive capacity, and that there should therefore be some reduction in capacity utilisation and labour demand in coming months. But the gap is not opening out nearly wide enough or fast enough to reverse the upward drift of underlying inflation.

To do this would require some shock. This could take the form of a real recession and not just a growth recession. A more politically realistic alternative would be a shock coming from the side of the exchange rate. The most likely form of this would be joining the EMS in circumstances under which sterling was likely to rise further from its present market rate.

Joining the EMS as a soft option would be too much like the original Mitterrand policy prior to 1983, whereas what is required is the policy of the hard EMS policy the French President employed after his U-turn of that year.

UK TRADE VOLUMES % (excl oil and erratics)	Exports	Imports
Jan-April 90 compared with Sept-Dec 89	+1.7	+2.8
Sept-Dec 89 compared with May-Aug 89	+6.5	-1.3
May-Aug 89 compared with Jan-Apr 89	+1.4	+0.9

CSO

BOOK REVIEW

A triumph for conservatism

THE SEARCH FOR MODERN CHINA
By Jonathan D. Spence
Hutchinson, 876 pp, £19.95

A year ago, viewers world-wide were riveted to their television screens as the drama in Tiananmen Square unfolded. In Peking, before the splendid vermilion gates of the Forbidden City, tens of thousands of students camped out with headbands and banners proclaiming "death or democracy". Fearful of the confused political demands unleashed by 10 years of economic reform, the party leaders refused a dialogue, and the inevitable happened: on the night of June 3, the tanks came rolling in, and yet again in China the forces of conservatism triumphed over popular demand.

For nearly four centuries, the pressures of a growing population, rising poverty and increasing challenge from Japan and the West have been regularly causing explosions. The suppression of the students in 1989 was only the last in a long line of old-fashioned blunt leadership responses to the demand for change. A modern country, in the view of Jonathan Spence, is nothing to do with technology: rather, he sees it as one that is well-integrated and receptive to new ideas. By that definition, China, he believes, is nowhere near modernity.

Mr Spence, an Englishman, is George Burton Adams Professor of History at Yale. He has already written absorbing books about China, notably The Gate of Heavenly Peace, which tells the story of the last 100 years through biographies of leading intellectuals of the time. His erudition is lightly worn in the nearly 900 pages of his fine new book, a political and to some extent social history of the years 1600-1989. Culture sheds light on the story, from his digressions on the luscious Dream of the Red Chamber in the 18th century to the embittered modern writer Bo Yang who sees nothing in the Chinese character but failure and self-inflicted degradation.

Mr Spence is endearingly casual about his new volume. "I needed a course book for my students," he says. "There wasn't one, so I wrote it."

It is not only his students who will find it illuminating. For China, above all other countries, a historian's perspective is essential. Mr Spence is not just concerned with events, but moral principles, to which the key is "the recurrent determination of educated Chinese to insist on their obligation to criticise the shortcomings of their government, even in the face of that government's implacable insistence on preventing them doing so".

The Tiananmen students had many precursors. Pressure groups of scholars of the early 17th century – the "Donglin Society" and others – brought terror upon their own heads by attacking the corruption at the emperor's court. At the end of the 18th century, intellectuals commenting on the extremes of poverty and riches and the increasingly inadequate administrative system faced internal exile or the death sentence.

A hundred years later, when constant revolts and depredations by foreigners were jolting the declining Qing (Manchu) dynasty into pondering reform, the conservative Empress Dowager executed her emperor nephew's radical advisers, intellectuals who had been influenced by western ideas.

Since the communists came to power there have been some outstanding intellectuals. One was Ding Ling, the writer of the 1920s and 1930s, who joined the party in its guerrilla base at Yenan. She portrayed party officials who exploited women and destroyed individual initiative and opinion, for which she was condemned through one anti-intellectual campaign after another and decades of re-education through labour in the countryside.

In spite of the centuries of civilisation, Chinese leaders – and not just the Communist Party – have found it hard to take on board the idea that governments need critics and people need freedom of thought. The Chinese method of rule – a giant bureaucracy, an all-pervasive network of contacts and informers, and a rigid control over people's aspirations – gives little scope for legitimate protest. Through much of Chinese history, dynasties have swiftly eradicated such protest in the interests of self-preservation.

Dynasties are only overthrown when things get really bad. "In 1644, in 1911 and again in 1949 (the fall of the Ming, Qing and Guomindang respectively, when in each case China was in a state of collapse) disillusion with the present and some nostalgia for the past combined with a passionate hope for the future to bring the old order crashing down, opening the way for an uncertain passage to the new," Mr Spence writes.

But in 1989, in spite of the protracted student protest, the old order did not fall. Deng Xiaoping, China's supreme ruler, slammed the door on change. Critics who did not flee abroad were silenced. To counter the fragmentation which has in the past often preceded the fall of a dynasty, Peking is rebuilding its traditional grip over ideology, economics and culture.

Whether the shored-up leadership will continue to survive is hard to say, but the chances of China achieving Spence-style modernity seem slim. Peking still appears committed to the fallacy that it can keep its tight, old-fashioned political control and still join the modern world. If China's leaders truly believe that, another revolution seems inevitable.

Colina MacDougall

OBSERVER

Smith out, List in

■ Christopher Benjamin, recently departed from the Department of Trade and Industry to the Japanese trading house, C Itoh, has left behind a valedictory headed "Minute to an Unknown Economist". It is an attack on Adam Smith and the reading list once recommended to the Department by the now Lord Joseph.

Benjamin was held in high regard by Britain's exporters during his period at the Project and Export Policy division, when he looked like convincing ministers that the pursuit of free trade must be laced with Japanese-style government realism in chasing contracts. Then he moved to head the engineering markets division, since disbanded by Nicholas Ridley, the current Trade and Industry Secretary.

In the course of his economic researches, Benjamin came across Friederich List whose ideas, a Swiss colleague told him, were behind the superior German economic performance. Only one copy of List's The National System of Political Economy could be found. It was in the Bank of England library and held together by Sellotape and rubber bands. Thus Benjamin thinks that there must have been a subversive campaign against List by the economic establishment. When he mentioned List to a Treasury knight, the response was: "Ugh, protectionism!"

Benjamin describes Sir Douglas Wass, the former Permanent Secretary at the Treasury, as "undoubtedly a good Treasury chap"; but one who "virtually dismissed industry in his Reith lectures on 'Government and the Governed'".

A lecture by Sir Robin Butler, the Cabinet Secretary, on the Government's new approach to business is dismissed as follows: "Maybe he was just reiterating a standard Treasury brief. But if such crashing condescension goes down OK with a British audience, in Frankfurt or Osaka these remarks would probably gather no more than the polite applause accorded to a talking polar bear."

They must be glad he's gone.

Knifed

■ The knives really are out in the Sheffield steel industry, as we reported last Friday. Some of them, however, are pointed at us. We should not have implied that Richardson Sheffield makes limited use of local steel for its knives. The Laser range of Richardson knives is made entirely in Sheffield, and the company is the biggest single cutlery industry consumer of local steel. It therefore had an excellent case for being the first producer to make use of the new Sheffield mark, despite what other local producers say. Observer withdraws – blunted.

German days

■ End of another chapter in German history: yesterday probably saw the final celebration of the Federal Republic's Day of the Constitution. It is not a national day as such, but marks the coming into force of the country's Basic Law on May 23 1949.

East Germany has a national day on October 7, marking the enactment of the constitution of the German Democratic Republic, also in 1949. But it can't go on like this. Next year thee will have to be a single German day.

Very strictly, it ought to be May 23, since it was a prescient article in the Basic Law that is facilitating German unification. But perhaps there could be a compromise (say) on the date of the first pulling down of the Berlin Wall or the day on which unification finally takes place.

"The media would like you to do a lap of honour."

Best of Peru

■ It is more than a decade since Carlos Santistevan left his post as President of the Peruvian central bank after falling out with the military government about diverting resources to buy Mirage jet fighters. He declined to be an accomplice in the breaching of agreements he had personally signed with the International Monetary Fund.

Santistevan moved to Libra Bank, created in the 1970s by a group of international banks to lend to Latin America. In the 1980s, this was not the easiest business in the world, but Libra made the best out of a difficult job. It was a surprise earlier this year when shareholders could not agree on bolstering the banks' capital base and decided to liquidate it.

Now 52, Santistevan, an executive director at Libra, is moving on to be Treasurer at the Inter-American Development Bank. Born in Arequipa, Peru, a city said to have the dubious distinction of producing more bankers, politicians and journalists than any other in Latin America, his career started with Citibank in La Paz.

The man who brought him to London was Tom Gaffney, now managing director of WestLB UK, when he was chief executive at Libra. He had tried without success to poach Santistevan to run Banco Continentale in Lima, the Chase Manhattan subsidiary then headed by Gaffney and since nationalised.

Exclusive Club

■ The arrival of democracy in eastern Europe may not yet have done much for the living standards of the population, but the "Gentils Membres" of the Club Méditerranée are certainly going to be more comfortable.

Club Med, which has already run one of its holiday villages in Bulgaria for 10 years, is about to move up-market: it is taking over the management of a five star bed resort formerly reserved to the Communist Party élite.

Serge Trigano, Club Med's managing director, says he could never in his wildest imaginings have dreamt of anything so luxurious as the 600 bed Golden Sands holiday centre near Varna on the Black Sea.

With its indoor swimming pool and fully-fitted auditorium, the centre will be turned into a top of the range family resort in summer and a conference centre at the beginning and end of the holiday season, if the protocol signed with Stoyan Zhulev, the Minister for Tourism, is completed.

Sensitive

■ There used to be an awful schoolboy joke abut a book called Forty Years in the Saddle by Major Bumsore. Now I see from the latest equestrian list that there really is a book called Sixteen Hands Between your Legs.

Louise Kehoe on the latest challenge to Apple's pioneering place in the personal computer market

Window of opportunity

Back in 1981, when IBM entered the personal computer market that had previously been dominated by Apple Computer, Apple gallantly welcomed its new rival with full-page newspaper advertisements, acknowledging that the advent of IBM would expand the market to the benefit of all.

This week, there have been no such noble gestures. For although IBM long ago claimed leadership in personal computers, Apple – the company that set the pace in the industry throughout the 1980s with its innovative and user-friendly machines – is facing what may turn out to be its most serious competitive challenge.

On Tuesday, Microsoft, the leading personal computer software company, launched a program that will provide IBM-compatible personal computers from Apple's competitors with many of the attributes of Apple's own popular Macintosh machines.

For Apple, the long-anticipated launch of Microsoft's Windows 3.0 software package comes at a difficult time. Senior Apple managers are occupied with correcting a series of false moves that culminated in a big management shake-up earlier this year and spawned widespread criticism of Mr John Sculley, Apple's chairman and chief executive.

Windows 3.0 is a "graphical user interface", a program that generates menu bars, icons and overlapping windows on the computer screen allowing the user simply to point at symbols and click an electronic "mouse" to select functions instead of typing arcane commands.

This technology has been at the heart of the success of Apple's Macintosh since its introduction six years ago, helping the company's sales to rise from $1bn in 1983, when Mr Sculley joined the company as chief executive, to $5.8bn in 1989. It has been fiercely protected by Apple in the courts – indeed, Apple is suing Microsoft over the Windows system, charging copyright infringement – and has become the trademark of Apple's approach to computing.

With the introduction of Windows 3.0, the feature that is Apple's "crown jewels", the innovative software that comes built in to the Macintosh machines, has been discounted to a price of just $150. In the US, the Macintosh sells for about $1,000 more than a comparable IBM-compatible system.

As it did with IBM in 1981, Apple executives have been trying to claim vindication through Windows 3.0. They claim it represents an endorsement of Apple's pioneering technology and that it will expand the potential market for Macintosh. "We have been validated," says Mr Christopher Espinosa, Apple's system software marketing manager. "Windows will make it easier for us to sell the Macintosh philosophy."

But revenues do not depend on philosophy. Selling high-priced Macintosh computers against similarly-equipped IBM-compatible computers may become much harder for Apple now that the company's exclusive claim to "ease of use" through a graphical user interface has been shattered, industry analysts predict.

"Faced with the choice of a $2,500 personal computer system with Windows and a colour display or a black and white Macintosh for about $4,000, which will the customer choose?" asks Mr Paul Grayson, president of Micrografx, a developer of graphics software. The answer seems obvious.

Apple admits that its premium prices may need to be reduced, although price cuts would threaten its profit margins of almost 55 per cent – the highest in the industry. While executives stress that Apple will never be a price leader, Mr Espinosa says: "We face the challenge of cutting cost out of the Macintosh."

Apple's market share has already been eroding, from 9.5 per cent of the world personal computer market last year to a projected 8 per cent in 1990.

Now the company's marketing skills will be put to the test as it attempts to convey the underlying advantages of the Macintosh. The company must find ways to explain that it is still easier to connect a Macintosh to a printer or network. Learning to use one Macintosh application is as good as learning them all because its programs all work in the same way, unlike those for IBM-compatible computers.

Nevertheless, Compaq Computer, one of Apple's strongest competitors, believes Windows has the potential to breath new life into the sluggish US personal computer market. Growth in the business has slowed sharply from the 20-30 per cent annual rates seen in the mid-1980s to around 8 per cent this year. Mr Mike Swavely, president of Compaq's North American operations, believes Windows will help by nudging long-time personal computer users to upgrade to new, higher performance machines.

It is not that Windows 3.0 is the first challenger to Apple's Macintosh. Other companies have created dozens of Macintosh-like user interface programs in recent years and Microsoft launched its first version of Windows five years ago.

Nor is Windows 3.0 a sure-fire success. The IBM- compatible computer world is in the midst of a confusing transition to the new Microsoft OS/2 operating system, which will incorporate a graphical user interface called Presentation Manager. Buyers of high-performance personal computers will now be faced with the dilemma of whether to adopt Windows or to shift directly to OS/2.

"Windows 3.0 is, however, the first "direct and visible" attack upon the Macintosh, Mr Swavely notes. The new version of Windows is designed to run on mainstream personal computers costing from $2,000 to $3,000 whereas earlier versions of the program were aimed only at top-of-the-range machines, he points out. "Windows is not good news for Apple," he claims.

Apple itself shrugs off such suggestions. "The demise of Apple has been predicted before – when Steve Jobs, former Apple chairman, launched his Next computer and when Microsoft introduces OS/2," says Mr Jim Davis, Apple's director of system software marketing. "Windows 3.0 just adds to the confusion in the IBM-compatible computer world."

What makes Windows 3.0 a serious threat to Apple, however, is the support that the new program is winning from application software developers. They are flocking to translate Macintosh programs into code that will run on IBM-compatible computers with Windows – which is distracting them from creating new Macintosh programs.

"This is a life-threatening challenge for Apple," warns Paul Grayson of Micrografx, a Windows supporter. Others are not so sure. "Apple sales will expand. Buyers will have to evaluate the Macintosh now," says Mr John Scull, president of Macromind, a multimedia software developer working primarily on the Macintosh but also developing programs for Windows.

Windows may not be a knock-out punch for Apple, but it is certainly a body blow, and it comes at a time when the company is looking unusually vulnerable.

Mr Sculley has withdrawn from public appearances and is declining interviews. He is focusing instead upon management of product development, following the resignation of Apple Products President, Jean Louis Gassee in March. He has reorganised the research and development group in an urgent effort to bring new computers to market faster.

The changes come in the wake of one of Apple's biggest flops. Sales of the Portable Macintosh, launched last year, have been slow. The portable version of the Macintosh is heavier and more bulky than competing IBM-compatible "laptop" computers.

Apple's latest product, a high-speed $10,000 version of the Macintosh aimed at the engineering workstation market, has also been criticised as too expensive and lacking the power of workstations from competitors such as Sun Microsystems.

While Apple has been focusing on corporate buyers and bringing out increasingly powerful versions of the Macintosh, its mainstay customers – individuals and small businesses – have been largely ignored. Its grip on the US education market is also weakening in the face of low-cost competitors.

The company now recognises that it must act quickly to strengthen the low end of its product line. Before the end of the year, Apple will launch a new low-end "entry level" computer for first-time buyers, Mr Sculley recently told analysts. Additional low-end products are expected next year.

Meanwhile, Mr Michael Spindler, newly-appointed chief operating officer, has taken over day-to-day operations and is in addition the acting president of Apple's US division, replacing Mr Alan Loren who abruptly resigned in January.

Mr Spindler is said to be revamping the US organisation, which produced disappointing results last year. He is also having to deal with dissension within the company, stemming partly from the recent management shake-up and accentuated by layoffs and an unpopular decision to change an employee profit-sharing plan.

"For some time Apple's marketing message has been muddled and rapidly changing. Apple needs to figure out what its advantages really are, and then stick to the story," says Richard Shaffer, publisher of Technologic Computer Letter.

Apple must find a way to articulate the value of the Macintosh computer, company insiders and industry observers agree. The company must also become more realistic about how much computer buyers are willing to pay for the "Apple Advantage".

Even if, as Apple hopes, Windows 3.0 does not live up to its advanced billing and the $10m that Microsoft is spending on advertising it, Apple must eventually face the challenge of competing with computers that have the same flavour as its own.

Mr Sculley already has a reputation as a marketing whizz-kid from his former career at Pepsico, where he is credited for having created the "Pepsi Generation". The challenge of Windows 3.0 seems worthy of his personal attention.

LOMBARD

The Canadian tragedy

By Ian Rodger

Canadians, hitherto thought of as among the most moderate of peoples, have managed to work themselves into such entrenched and unreasonable positions over proposed constitutional amendments that the future of the country seems imminently in doubt.

On one side are the French, insisting that the survival of their culture is threatened, and that unless the amendments are agreed, Quebec will have to separate from the rest of Canada. On the other side, the rest of Canada is still grumbling about having French "rammed down our throats", and so is refusing to agree to the amendments it sees as just more appeasement to Quebec.

Rarely can such a potentially momentous row have been founded on such flimsy premises. The proverbial man from Mars arriving in Quebec today and seeing 6m people with a lively literary, art and media scene and dominating a vast chunk of territory in north-eastern North America would undoubtedly scratch his head in disbelief at suggestions that the French Canadian culture was threatened.

Returning to western Canada earlier this year after a long absence, I tried hard to find evidence of French having been rammed down my family's and friends' throats. But there seemed to have been little change since I was a child trying to puzzle through the small French print on breakfast cereal boxes. Driving from Calgary to Banff National Park, one could not help noticing the petty refusal of the Alberta Government to allow French on signs announcing it.

How have things got to such a sorry state? Many analyses will emerge as the final chapters of the so-alled Meech Lake constitutional amendment process unfold. The crucial event, in my view, was the federal government's handling of the 1973 oil crisis.

Until then, the rude challenge to the country posed by French Canadian nationalism had been dealt with in a typically sensible Canadian way. "What does Quebec want?" was the reaction of a puzzled, but not particularly hostile, English Canada in the early 1960s. Like many other young people at the time, I went along to find out.

The answer, of course, became both more elusive and more banal as familiarity grew. Quebec did not want anything. Quebecers, like the rest of us, wanted various things; cheaper mortgages, a second car, a better job, a holiday in Florida. More to the point, they wanted to have at least as good access to them as we had. And by the early 1970s, it looked as if they were well on the way to getting it, as the Quebec economy strengthened and French Canadian control of it widened.

But the federal government's decision in 1973 to prevent Canadian oil and gas prices from following the sudden rises in international prices and to block new gas exports to the US instantly set up a second locus of regional posturing. "Let the eastern bastards freeze in the dark!" became the battle cry of Albertans who felt cheated out of a windfall and wanted to cut off supplies of fuel to eastern Canada. In reality, it would have been politically and economically unthinkable for Canada to set oil and gas prices that differed radically from those in the US. And, ironically, the National Energy Board has since virtually abandoned attempts to limit gas exports.

But Ottawa's insensitivity to western feelings proved terribly damaging. Since then, moderation has gradually disappeared, as weak-kneed politicians have scrambled for cover in one or other extremist camp. It is difficult to see how, even if they do scrape through the current crisis, the country's leaders will give up their tendency to represent only narrow regional interests.

The break-up of Canada, if it occurred, would not be one of the world's great tragedies. No one would be killed, no one would starve. But many people would be sad to see some of the useful things Canadians have been trying to do in their spacious and rich land – such as build a truly harmonious multiracial society – suddenly come to an end.

LETTERS

Financing innovation and technical risk

From Mr Ian Mackintosh.

Sir, Short-termism is, by anyone's yardstick, an emotive subject, but I hope we might ultimately look forward to reading a fuller treatment than in Simon Holberton's article ("The long and the short of it," May 21). In this contentious and complicated territory I would choose to make just three simple points.

● The exploitation of technology is, from a lifetime's experience and almost by definition, a long-term business, whereas fund managers etc (as Mr Holberton points out) are judged primarily on short-term results. That is a fundamental conflict which, while we retain our present investment criteria, no amount of analysis or research can change.

● Using selected Securities and Exchange Commission (SEC) statistics with which to refute a charge of short-termism is rather like asking a recidivist to comment on the merits of the penal system.

● The problem of short-termism is only salient in the so-called high-technology industries, for the bulk of which an annual expenditure on research and development of about 4 per cent (the quoted SEC study) would be tantamount to deliberate technical obsolescence. For example, the industry of which I have most experience, electronics, not unusually has to shoulder a burden of about 8 per cent to 10 per cent per annum in such charges. At that level it becomes almost impossible to balance the short-term and the long-term interests of any enterprise which has to operate in the kind of financial environment currently pervasive in both the UK and the US, but not so much, interestingly, in Germany or Japan.

There is no doubt in my mind, nor has there been for the past 20 years or so, that Britain has no chance of maintaining or creating viable high-technology industries unless and until we can find a way of financing innovation and technical risk which is compatible with the kind of returns which most investors have now come to expect. It should not be too much to ask for government to fund an objective and informed institution to carry out a dispassionate analysis of how this problem is tackled in countries which are manifestly more successful than the UK – especially in the creation of economic activity from technology.

Ian Mackintosh,
Mackintosh Generics,
19 Buckingham Street, WC2

No danger of a Community monopoly in ferrochrome

From Mr Ernst Waldburger.

Sir, I refer to Professor Patrick Messerlin's article ("Community rules on a collision course," February 28) and, particularly, to the author's rebuttal (Letters, April 19) of Mr Nico Wegter's criticisms (*Letters, March 22*).

In his rebuttal Professor Messerlin mentions *inter alia* "... some anti-dumping cases have created *de facto* monopolies ... as well illustrated by the ferrochromium ... cases."

With only about 20 per cent of European Community consumption of ferrochrome being supplied by the few remaining producers in the Common Market, and those being besieged by unfair pricing practices by such producers as Norway (bankrupt state enterprise), the Soviet Union, Albania and others, it is ludicrous to talk about a monopoly situation existing in this product.

And even if, for the sake of argument, the EC were left with only one producer of ferrochrome, that survivor would hardly enjoy a monopoly situation what with 600,000 tonnes of yearly duty-free quotas (mostly used for South African charge chrome) and ample quantities being available on a duty-free basis from Zimbabwe, Turkey, Finland, Sweden and, at least in part, Yugoslavia.

I believe Professor Messerlin must have confused ferrochrome with something else. May we hear from him please?

Ernst Waldburger,
President, Chromeurope (France) and Ferroaleaciones Españolas (Spain),
Edificio Gan,
Ramirez de Arellano s/n,
Madrid

Sweeping claims for N-power

From Mr David Ross.

Sir, Mr. J. H. Gittus states on behalf of British Nuclear Forum (Letters, May 15) that the industry is working to broaden its knowledge of energy costs and this is welcome. But the forum seems to be continuing to make optimistic and unsupportable claims, like those which led to the Government's decision last November to exclude nuclear power from privatisation.

In advertisements for nuclear energy, the forum states that we would need 100 kilometres of wave energy converters to generate the same amount of electricity as a modern nuclear power station. There are 50 kilowatts of electricity in a metre of wavefront, 50 megawatts in a kilometre and therefore 100 km would represent 5,000 megawatts. A nuclear power station is usually rated at around 1,000 megawatts. So the forum has quintupled the supposed horror of lines of wave energy converters bobbing up and down far out at sea – it would need 20, not 100 kilometres.

It may be that Mr Gittus is thinking not of installed capacity but of output, in which case we would need to compare the wave power station with the load factor of nuclear plants, the results depending on one's assumptions about wave power efficiency and which nuclear station was chosen.

With so many variables, would it not encourage confidence in the information provided by the nuclear industry if it made less sweeping claims.

David Ross,
55 Ruskin Park House,
Champion Hill, SE5

Kinnock's 'unfair' tax plan

From Mr P.W. McGrath.

Sir, Mr Kinnock stated before the local elections that when he became Prime Minister the broadest shoulders would have to bear a greater burden and he would introduce a more graduated scale of income tax rates up to a maximum of 50 per cent – "no more than in Germany."

This may sound reasonable, but no real sense can be made of it without considering the threshold at which the higher rates apply. For example, the highest German rate for a married man comes in at DM 270,000 (£98,000), whereas the UK's privileged under-burdened wide shoulders start paying our 40 per cent top rate at £20,700 of taxable income.

I have compared the tax liability of a married man with two children in Germany and the UK on an income of DM 100,000 (£36,363) and DM 30,000 (£109,090) – sterling conversion at DM 2.75. On the lower income he would pay £6,369 German tax and £9,550 UK tax at current rates and £10,644 if the UK top rate were increased to 50 per cent. On the higher income he would pay £38,255 in Germany, £38,641 in the UK, rising to £47,008.

I have ignored mortgage interest relief on which tax up to about £2,000 can be saved in the UK, but in Germany 7 per cent depreciation of the purchase price of a house can be charged each year for a maximum of 10 years. That amounts to much more tax relief and support of the housing market than in Britain.

German health and social security payments are higher, and the higher of my examples would pay about £3,000 a year more than his UK counterpart. For this, however, he would receive a pension on which he could maintain his standard of living and a medical service which only private insurance could offer in Britain.

I do not believe it is remotely fair to increase the UK top tax rate to German levels without a massive rise of thresholds.

P.W. McGrath,
St Leonard's Forest House,
Horsham, Sussex

Pensioners are real people too

From Mr Michael Elton.

Sir, Those who argue that a successful bid by a pension scheme for an investment trust would take away ownership from "real" people can be reassured that members of pension schemes are real people too.

In British Coal's case the assets are invested for the benefit of some 750,000 members, pensioners and deferred pensioners (without counting widows or dependent children).

Michael Elton,
Director General, National Association of Pension Funds,
12-18 Grosvenor Gardens, SW1

FINANCIAL TIMES
Thursday May 24 1990

Climate improves for accord on global warming

David Thomas and John Hunt find a belated consensus among the world's scientists

A CONSENSUS about global warming – long a battleground between sceptics and true believers – is beginning to form within the world's scientific community.

The new issue on the agenda is likely to be not whether the earth is warming up because of emissions of a range of greenhouse gases, but what ought to be done about it.

That much is clear from the confidential drafts of three reports prepared by the Intergovernmental Panel on Climate Change, a body set up by United Nations agencies.

The panel consists of a group of experts whose job is to advise a ministerial conference on climatic changes, scheduled to be held in Geneva next November.

Global warming is the process by which greenhouse gases, such as carbon dioxide, collect in the Earth's outer atmosphere, trapping warmth within it.

The intergovernmental panel set up three working groups, which jointly tapped the collective wisdom of about 1,000 of the world's leading scientists.

Each of the working groups has produced a draft report.

● The first, chaired by a British scientist, is on the science of global warming. Its final report is due to be published tomorrow after a meeting of 70 leading meteorologists in Surrey.

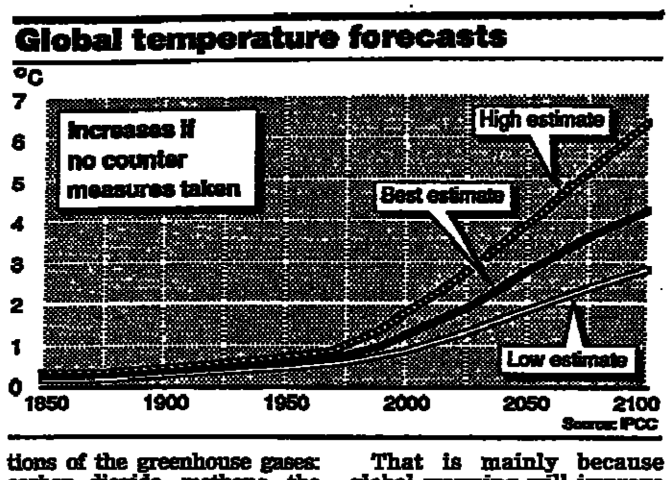
● The second, chaired by a Soviet expert, is on the effect of global warming.

● The third, chaired by a US scientist, is on possible responses to global warming.

The most authoritative tone is struck by the first of these reports, on the scientific aspects.

It says: "Man-made emissions are substantially increasing the atmospheric concentrations of the greenhouse gases: carbon dioxide, methane, the chlorofluorocarbons, nitrous oxide and tropospheric ozone."

Global temperature forecasts



Although the latest draft of the science report is hedged with more qualifications than earlier versions, its authors are still sufficiently confident to make several alarming predictions of what will happen unless action is taken to offset greenhouse gas emissions.

The report's best estimate is that average global temperatures will have risen by about 2 degrees Centigrade above pre-industrial levels (1.1 deg C above today's levels) by the year 2030 and 4 deg C above pre-industrial (3.3 deg C above today) by the year 2090.

That will translate into an average rise in sea levels compared with today of 18cm by 2030 and 58 cm by 2090.

The most reassuring conclusion of the second report, on the effect of global warming, concerns total food supplies. "On balance, our assessment indicates that food production at the global level can be sustained at levels sufficient to meet world demand," the draft report says.

That is mainly because global warming will improve the productivity of world agriculture. Greater atmospheric concentrations of carbon dioxide, the main greenhouse gas, will improve the growth rate of some staple cereal crops, such as wheat and rice.

Increased temperatures will also assist the productive potential of some agricultural zones.

HOWEVER, that relatively benign global assessment disguises significant difficulties for individual regions. Although agriculture in northern Europe, Canada and the Soviet Union may benefit, the effect of increased drought in already semi-arid regions of Africa, the Middle East and Latin America could be devastating.

The report also warns of the consequences for some of the world's most important food-producing regions. It says: "There are indications that warming could lead to an overall reduction of cereal production potential in North America and to reduced potential in southern Europe."

Moreover, the costs of adapting world food output to higher temperatures and changed rainfall patterns might be substantial – possibly amounting to more than 10 per cent of world agricultural output GDP.

An official review of the greenhouse effect carried out for the UN has concluded that global temperatures will rise sharply in the next century, but has failed to recommend a course of action by the world's governments. Environmentalists have attacked the report as too vague. Mr Andrew Dilworth of the Friends of the Earth said: "It is just not up to the job. It has not come up with clear recommendations for the governments of the industrialised countries to follow."

The report cautions: "Under these circumstances there could be substantial regional dislocation of access to food supply."

Other consequences of global warming are also analysed: the impact on forestry, as boundaries for forest types shift by hundreds of kilometres; the threat to the entire existence of some low-lying Third World countries, such as Bangladesh; the spread of certain diseases such as malaria from tropical regions to cooler parts of the world.

In one way or another, most of these will feed through into implications for human habitation. "The gravest effects of climate change may be those on human migration, as millions are uprooted by shoreline erosion, coastal flooding and agricultural disruption."

That tone of alarmed certainty is absent from the conclusions of the third report on the response to global warming.

It does little more than list the sort of measures needed to reduce emissions of carbon dioxide and other greenhouse gases, which are well known to anyone who has taken a slight interest in the question of global warming.

THE nearest the report gets to suggesting a prescription is when it recommends "implementation of measures which are already economically and socially justifiable in their own right and which also provide benefits from a climate change standpoint. Examples include increased energy efficiency, improved use of forests and other natural resources and reductions in emissions of CFCs."

Also recommended are two measures: an international framework convention on global change; and development of individual national plans to combat greenhouse gas emissions. The Geneva conference in November was in any case expected to agree to this.

Strikingly absent from the third report are specific recommendations for remedial action or a discussion of the possible costs they would entail.

Conspiracy theorists might point to the fact that the third working party was chaired by a US scientist. The US has taken the lead in playing down the consequences of global warming and in emphasising the cost of response strategies in this year's environmental conferences.

On the other hand, it could be argued that it is the job of ministers – not scientists – to formulate response strategies the potential costs of which run into the hundreds of billions of dollars. The panel's first two reports will leave them with little excuse to duck the challenge.

THE LEX COLUMN

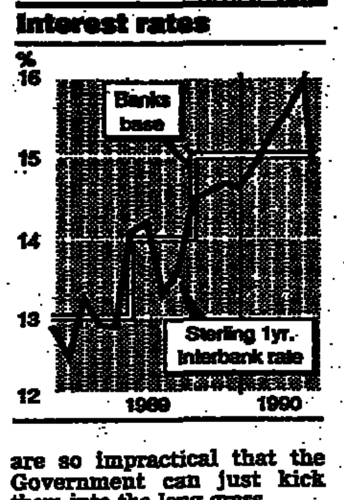
Trade figures tell no lies

After a runup of 10 per cent in less than a month, there was always going to be a correction in the UK equity market. But it was the calm reaction of the gilt-edged and foreign exchange markets to another set of horrible UK trade figures which was yesterday's biggest surprise. However one plays with the figures, it is impossible to portray them as good news.

Over the last year, base rates have been raised by another two percentage points and the effective exchange rate has fallen by close to 6 per cent, yet import volumes in the last three months are still 3 per cent up on a year ago, and if anything the growth is accelerating. The export picture may look reasonably bright but in the first four months of this year the UK balance of payments position has worsened noticeably from a year ago. Notwithstanding the first signs of rising unemployment and this week's drop in corporate borrowing, the latest figures indicate that the UK credit squeeze is nowhere near tight enough. This may be moderately good news for equities in the short-term. But it is hard to see how it can be overlooked by the gilt-edged market's inflation sensors.

Clearly, the perception that the UK is going to enter the exchange rate mechanism soon is having just as big an impact on external sentiment as on domestic, and this is underpinning the UK financial markets. But the attractive arithmetic of a firm exchange rate, falling interest rates and declining inflation only makes sense if it is accompanied by a marked improvement in the UK trade position. This is just not happening and the markets' current ERM honeymoon will be short-lived.

Interest rates



DTI Inspectors

There are many good and original things in the Trade and Industry Committee's report on company investigations. To paraphrase Dr Johnson, the things which are good are hardly original, and those which are original are not much good. The 335 closely-printed pages proceedings reveal that the DTI is too bureaucratic; that company investigations take far too long; that insider dealers should be in Pentonville; and that Lord Young behaved idiotically over Harrods. Where the report says something new, such as suggesting a statutory duty for auditors to sneak to the authorities, the proposals are so impractical that the Government can just kick them into the long grass.

For ordinary shareholders, the most welcome item is the defence of the DTI inspector's right to express clear judgements about the conduct of individuals. Yet in doing so, the Committee adds little to the eloquent defence of the inspector's role by Lord Denning in 1973. In a system of corporate governance such as the UK's, where ownership and control are separate, shareholders need the services of a tough, forthright public official to represent their interests when boards of directors fail to do so. Especially so, given that under English company law, it is very difficult for individual shareholders to obtain legal redress. It is a great pity that the Committee did not articulate this principle more clearly, and refute more comprehensively the dubious special pleading on the issue from the Bank of England.

RHM

Businesses can not be rationalised and margins improved for ever. Sooner or later, the fundamental growth potential of the business will reassert itself, as shareholders in RHM are now discovering. In the 1980s, the company turned itself from an inefficient basic grocery business into an efficient one and shareholders, Sir James Goldsmith excepted, benefited along the way - earnings per share have more than quintupled over the last seven years. But achieving further growth now depends on expensive strategic acquisitions in Europe.

At the same time, some of the reliability of RHM's core earnings is being undermined. The food retailers seem currently to be improving their margins at the expense of their suppliers. And notwithstanding Marie Antoinette, the public eats less of both bread and cake in mild winters and warm summers, which makes RHM the stock to sell if you believe in global warming.

The shares fell 39p to 390p yesterday not so much in response to the interim profits – virtually static despite taking a £2.2m Mr Kipling contamination scare below the line – but because of the gloomy forecast for the rest of the year. A prospective p/e of 11, assuming full year profits of £170m, is sustained not by the prospects of a recovery in 1991, but on lingering, and probably futile, hopes that Sir James has something up his sleeve.

Dixons/Kingfisher

It will be more important to review the verdicts on the proposed GrandMet/Elders deal and the British Airways investment in Sabena, but yesterday's decision to block Kingfisher's bid for Dixons may mean that the Government is becoming a little bit tougher on takeovers. If so it could spoil some of Labour's thunder on the subject.

Admittedly, the result had been pretty well leaked so that yesterday's shambles over the publication of the report did not cause quite as much fuss as might otherwise have been the case. Now that Dixons is no longer a bid target it must be regarded as one of the more expensive recovery stocks. But at least its yield of 6 per cent looks more secure than those of Next and Storehouse. Meanwhile, Kingfisher should not spoil its reputation by rushing out with another bid.

Bass

Yesterday's figures from Bass came too early to provide any clues about the wisdom of buying Holiday Inn, save in the cautionary reminder of the higher than expected interest charge. Whether the brewing business can stay as strong in the second half, if last year's summer is not repeated, must be open to question; analysts expect UK beer volumes to drop 2-3 per cent this year. That Bass has decided to keep a foot in both the retailing and the pub-owning camps was no surprise, so yesterday's 14p share price jump, topping a 18 per cent rise this month, was being explained as due to shortage of stock. Certainly given the risk implicit in the Holiday Inn deal, the shares look high enough on a p/e exproperty of 11.

Gorbachev attacks Yeltsin over campaign

By Leyla Boulton in Moscow

MR Mikhail Gorbachev, the Soviet President, yesterday attacked Mr Boris Yeltsin's campaign to become president of the Russian republic and accused him of trying to break up the Soviet Union.

Mr Yeltsin, the former Moscow Communist Party chief sacked from the Politburo for demanding more radical reform, has been calling for a truly "sovereign" Russia, freed from subsidising the rest of the Soviet empire.

Mr Gorbachev, whose frequent presence at the week-old session of the Russian Congress of People's Deputies has illustrated the importance he attaches to its outcome, angrily accused Mr Yeltsin of abandoning socialism in the republic.

"A serious analysis shows that what he suggests under the banner of restoration of Russia's sovereignty means a call for the break-up of the union," said the Soviet President, who is backing Mr Alexander Vlasov, the Russian Prime Minister, for the job.

On Tuesday, Mr Yeltsin told the Russian Congress that the republic had suffered more damage than any of the 14 other Soviet republics from the old-style command economy.

He claimed that although the Russian Federation was the Soviet Union's third most productive republic, it was last in terms of social spending. He has suggested concluding new treaties with other Soviet republics, and giving Russia a multi-party system of its own.

The Congress is meeting to elect a standing parliament, or Supreme Soviet, but it is not clear when it will get down to electing the new Supreme Soviet chairman, whose power amounts to that of a republic president.

Although Mr Yeltsin can count on only 30 per cent of the vote – from radical deputies – one recent straw poll suggested that no other candidate could garner more than 5 per cent.

One possible way out, according to some deputies, would be for Mr Yeltsin to settle for the job of prime minister in the Russian federation in return for constitutional amendments which would give the radicals more seats in an enlarged Supreme Soviet.

US ready to discuss UN Mideast role

By Lionel Barber in Washington, Tony Walker in Cairo and Hugh Carnegy in Jerusalem

THE US said yesterday it was "prepared to discuss" sending United Nations observers to the Israeli-occupied West Bank and Gaza Strip, according to Mr James Baker, the Secretary of State.

He said the US would enter such talks if that idea "indeed comes up at the UN Security Council session."

The US move reflects increasing frustration with Israel and is likely to be well received by Arab states as the despatch of a UN peacekeeping force to protect Palestinians in the Israeli-occupied territories has been a long-standing demand of the Palestine Liberation Organisation.

Mr Yassir Arafat, the PLO chairman, is expected to call for UN peacekeepers tomorrow in Geneva where, the Security Council announced yesterday, it was moving from New York its meeting to discuss renewed conflict in the territories. Mr Arafat has previously been barred from entering the US.

The Security Council meeting comes after a wave of violence in which Israeli troops killed at least 14 Arabs in riots that erupted after an Israeli shot dead seven Palestinians near Tel Aviv on Sunday.

Mr Avi Pazner, the Israeli Prime Minister's spokesman, said Israel opposed the stationing of UN observers in the territories. "We would ask the US not to agree to such a step as it would be an infringement of internal Israeli affairs."

Israeli officials will see Mr Baker's remarks as another sign of deteriorating relations between the two countries.

The PLO sees a possible direct UN presence in the West Bank and Gaza as an important step towards a concerted international effort to resolve the Middle East conflict.

President George Bush yesterday contacted Egyptian President Hosni Mubarak to express his deep regret over the weekend's violence.

Mr Bush's call appeared to be designed to bolster Mr Mubarak on the eve of an Arab League summit which convenes in Baghdad early next week to debate the Jewish immigration issue.

The US evidently hopes Mr Mubarak, its closest Arab ally, will be able to calm militants pushing for a strong stand against both Israel – for refusing to co-operate in regional peace efforts – and against the US – for backing Israel.

In Iran, the parliamentary speaker, Mehdi Karrubi, said Arab leaders in Baghdad should agree to stop oil sales to the west in support of the Palestinians.

Iraq and PLO urge tougher line on Israel, Page 6

S&L industry rescue plan soars to between $90bn and $130bn

By Peter Riddell, US Editor, in Washington

THE cost to US taxpayers of rescuing the savings and loan industry has nearly doubled since last summer, further complicating the already difficult negotiations between the Bush Administration and Congress over reducing the budget deficit.

Mr Nicholas Brady, US Treasury Secretary, yesterday provided the clearest official confirmation of the soaring costs of the rescue while in subsequent evidence to the Senate Banking Committee, Mr Alan Greenspan, the chairman of the Federal Reserve, said: "The size of this hole is astronomical."

The cost to taxpayers of the rescue – the biggest in US history – is now between $90bn and $130bn in present value terms and far larger on some definitions.

This compares with the $73bn approved by Congress last summer ($50bn for up to 1992 and the rest thereafter). The exact amount depends on how many savings and loans fail and on the scale of losses.

The change reflects the impact of a decline in US commercial property prices, higher than expected interest rates and larger losses in high yield junk bonds, all contributing both to a larger number of failures and bigger losses in individual cases. In addition, it is proving harder to find buyers for the failed S&L assets.

While a big upward revision in the costs of the rescue was expected, its confirmation has underlined what a senior Treasury official yesterday said was "the largest wild card" in the Budget talks.

Mr Brady's figure is lower than some recent Congressional and external estimates, which have ranged from $250m up to $500bn, but is consistent with some of these calculations. The gap is largely explained by differences of definition.

Mr Brady said that, in addition to 423 S&Ls with $215bn in assets that are, or have been, under Federal control, some 299 institutions with assets of $193bn are seen as "likely candidates" to be taken over. A further 315 S&Ls with $152bn in assets have an uncertain future but at present do not require assistance.

The White House Office of Management and Budget has estimated that taking account of all the costs of the rescue, including working cpaital, the Federal deficit will be $194bn in the current 1990 fiscal year.

It would be $155bn without such costs, compared with a statutory target of $100bn.

For fiscal 1991, starting this October, the deficit is put at $199bn (with all the S&L costs and $138bn without). The target is $64bn.

The Administration has been suggesting the exclusion of a large element of the rescue costs, particularly the working capital element, from the calculations of what needs to be done to reduce the deficit.

After three meetings of the budget negotiators, Republican Senator Phil Gramm, the main author of the deficit reduction law, yesterday expressed frustration that the discussions so far had mainly been about the problems and no solutions had yet been on the table.

On Tuesday the negotiators discussed ways of balancing the budget in five years, rather than the present target of three, with $500bn in spending and tax measures over the period.

ANZ's takeover is blocked

Continued from Page 1

assurance separate from banking.

However, Australia would be better served if banks and other financial institutions continued to grow their own operations, rather than seeking to expand by taking over large life assurance companies.

It would also be preferable for life companies seeking to expand into banking to grow organically or acquire smaller institutions.

"Given the particular importance of the banking and life insurance industries, it is not sensible to leave the promotion of competition to market forces alone when there are pressures towards concentration of economic power", he said.

The ruling allows ANZ to continue to operate its small ANZ Life business, and opens the way for non-mutual life companies to acquire banks, provided they can demonstrate sufficient financial strength and a diverse share register.

This follows the establishment of Chase AMP Bank by the AMP Society and Chase Manhattan Bank, and National Mutual Royal Bank by National Mutual and Royal Bank of Canada during the deregulation of Australian banking in 1984-85. Both banks are thought to have disappointed their parent companies.

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	F	26	79	Dallas †	S	17	63	Madeira	F	22	72	Prague	F	23	73
Algiers	F	24	75	Dublin	C	14	57	Madrid	T	12	54	Reykjavik	S	6	43
Amsterdam	S	17	63	Dubrovnik	S	24	75	Majorca	C	22	72	Rhodes	S	24	75
Athens	S	23	73	Edinburgh	C	14	57	Malaga	S	25	77	Rio d'Janeiro		–	–
Bahrain	S	37	99	Faro	F	20	68	Malta	S	26	79	Rome	S	28	82
Barcelona	R	17	63	Florence	S	28	82	Manchester	F	15	59	Salzburg	F	23	73
Belfast	C	13	55	Frankfurt	F	21	70	Melbourne	S	14	57	S'Francisco †	R	12	54
Belgrade	F	26	79	Geneva	S	21	70	Mexico City		–	–	Santiago		–	–
Berlin	S	22	72	Gibraltar	S	22	72	Miami †	Sn	25	77	Seoul	S	22	72
Biarritz	C	17	63	Glasgow	C	13	55	Milan	F	23	73	Singapore	F	32	90
Birmingham	F	19	66	Guernsey	S	16	61	Montreal †	C	7	45	Stockholm	F	15	59
Blackpool	F	14	57	Helsinki	C	11	52	Moscow	C	15	59	Strasbourg	F	22	72
Bombay	F	33	91	Hong Kong		–	–	Munich	F	22	72	Sydney	Dr	18	64
Bordeaux	F	20	68	Innsbruck	F	22	72	Nairobi	F	24	75	Tangier	F	19	66
Boulogne	F	17	63	Inverness	C	11	52	Naples	S	30	86	Tel Aviv	S	25	77
Bristol	S	21	70	Isle of Man	F	14	57	Nassau		–	–	Tenerife	F	25	77
Brussels	S	19	66	Istanbul	S	20	68	Newcastle	F	14	57	Tokyo	S	22	72
Buenos Aires		–	–	Jersey	S	18	64	New Delhi	S	38	100	Toronto †	C	11	52
Budapest	F	26	79	Johannesburg	S	15	59	New York †	S	12	54	Tunis	F	28	82
Cairo	S	29	84	Las Palmas	S	24	75	Nice	F	23	73	Valencia	C	23	73
Cape Town	S	17	63	Leeds	S	17	63	Nicosia	S	25	77	Venice	S	24	75
Cardiff	F	21	70	Lisbon	S	20	68	Oporto	S	18	64	Vienna	S	21	70
Chicago †	S	11	52	Locarno	C	20	68	Oslo	R	11	52	Warsaw	S	20	68
Cologne	S	22	72	London	S	21	70	Paris	C	20	68	Washington †	S	13	55
Copenhagen	F	15	59	Los Angeles †	S	14	57	Peking		–	–	Wellington	F	17	63
Corfu	F	24	75	Luxembourg	F	20	68	Perth	C	18	64	Zurich	S	22	72

C–Cloudy. Dr–Drizzle. F–Fair. Fg–Fog. H–Hail. R–Rain. S–Sunny. Sl–Sleet. Sn–Snow. T–Thunder.
† Noon GMT temperatures

GE, Daimler end dispute

Continued from Page 1

with UTC. GE accused the West German company of fraud, misrepresentation, breach of contract and misappropriation of trade secrets.

The agreement will allow Daimler Benz' aero engine subsidiary, Motoren–Und Turbinen–Union to collaborate with UTC's Pratt & Whitney division to develop the next generation of high thrust engines.

The PW 4000 engine will compete directly with the GE90, the high thrust engine which GE and MTU had been developing together.

Deutsche Aerospace, the Daimler company into which its aerospace activities are grouped, said it was pleased the settlement would allow the partnership to proceed without further legal delays.

GE had sought a court ban on MTU being involved in, developing high thrust engines with a thrust of more than 75,000 pounds designed for the next generation of wide bodied airliners.

However, GE said it was happy that it had won significant safeguards of its competitive position.

Most significantly MTU will be prevented from collaborating with Pratt & Whitney in the class of engines below the very powerful high thrust engines.

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1990
Thursday May 24 1990

INSIDE

Gold plummets after big sale

A sudden fall in the price of gold sent traders into a frenzy yesterday following a big sale of physical gold in London from the Middle East. The price plunged to \$361 at one stage before recovering to close at \$363¾ an ounce down \$11 from Tuesday's close. "I have never known the price to fall so far so fast," said an analyst at Warburg Securities. There were rumours that Saudi Arabia was selling gold to finance the purchase of arms from Britain, or that the sale was linked to fast-falling oil prices. Page 27

Milan puts debt house in order

What a month it has been for the Italian debt market. A gradual, but largely unnoticed, change has come to a head during May, and this one-time haven of illiquidity and idiosyncratic muddle has started to show itself as a professional and internationally-attractive investment pool. The market has even taken last weekend's 1 percentage point cut in the Bank of Italy's discount rate in its stride, Haig Simonian looks at the transformation. Page 23

Courtaulds cuts back acrylics

Overcapacity in the acrylic fibres industry has forced Courtaulds, the UK chemicals and materials company, to cut back its acrylics operations. The group is Western Europe's second biggest acrylics producer — after Enimont of Italy, and ahead of West Germany's Bayer. All three have recently made losses on acrylics activies. Sir Christopher Hogg, Courtauld's chairman, yesterday announced the first results since the group's demerger last October. Profit were slightly above many analysts' expectations. Page 24

Japanese profits tune in to expanding audio markets

AIWA

Three of Japan's leading audio equipment companies increased profits in the year to March. TDK, the world's largest manufacturer of magnetic tapes, took advantage of growing demand for TV and computer components, while Pioneer Electronic found most of its growth in the expanding market for laser disc players and car audio equipment. Aiwa achieved the biggest improvement of the three in percentage terms, with a 153.6 per cent rise. But the company, which had a cumulative loss of Y9bn (\$59.3m) last year, is again passing its dividend. Page 21

ANZ falls 23%

Australia and New Zealand Banking Group yesterday announced a 23 per cent fall in interim profits after tax. It is the third of Australia's big four banks to announce disappointing results for the six months to March, providing further evidence of the impact on the economy of the Government's high interest rate policy. Page 21

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
BMW	556	+	11.5	Beghin-Say	985	+	36
Linde	1010	+	27	Colimeg	379.7	+	10.7
Muench Rueck	2180	+	85	Ecco	620	+	21
Volkswagen	592.5	+	12	Imetal	369	+	14
Falls				Sefimeg	515	+	14
Dest. Babcock	214	—	9	**Falls**			
Sud-Chemie	799	—	10	Epeda-Bert.	1220	—	100
NEW YORK (\$)				**TOKYO (Yen)**			
Rises				**Rises**			
Compaq Computer	121¾	+	2½	Chugai Ro	1120	+	110
Hse of Fabrics	22½	+	¾	Nihon Unisys	2580	+	240
IBM	118⅞	+	⅞	Nippon Lace	1750	+	220
Falls				Topre	1500	+	140
Citicorp	23⅞	—	½	Yuken Kogyo	1130	+	100
Homestake Mining	18⅝	—	1⅛	**Falls**			
Newmont Gold	43	—	2	Saitama Seni	1060	—	80

New York prices as at 12.30pm.

LONDON (Pence)							
Rises				Ultramar	341	+	3
Anglia TV	248	+	11	**Falls**			
Berkeley Grp.	190	+	8	BAT Inds.	684	—	8
Bryant Grp.	95	+	4½	BTR	421	—	8
Costain Grp.	284	+	9	Barclays	544	—	15
Erith	85	+	9	British Gas	212	—	6½
Kingfisher	311	+	3	Fisons	358	—	13
Land Secs.	496	+	3	Midland	284	—	14
Lucas Inds.	633	+	11	RHM	360	—	38
MEPC	509	+	5	Royal Ins.	448	—	17
Polly Peck Intl	400	+	8	Wellcome	681	—	28
Select Appts.	69	+	15				

Canadians will match C\$1bn British Gas bid

By **Bernard Simon** in Toronto and **Steven Butler** in London

A RIVAL bid to British Gas's C\$1.1bn (US\$1bn) offer for Canada's biggest gas utility has been announced by a private group of Canadian investors.

The group, called ProNational Gas (PNG), said yesterday that it would unveil details within the next month of an offer "equal or superior" to the C\$34-a-share cash bid by British Gas for all the shares of Consumers Gas of Toronto – including the 82 per cent block presently held by GW Utilities, which is controlled by Toronto's Reichmann family.

The rival bid threatens, for the third time, to complicate a big overseas acquisition by British Gas. Should the deal fall through, or become heavily involved in local political controversy, as were earlier bids, British Gas's overseas expansion strategy would again be called into question.

British Gas's offer for Consumers Gas has been generally well received by London analysts, some of whom yesterday said that a rival bid confirmed that the original offer was sensible.

British Gas yesterday said the GW Utilities-owned shares were firmly committed to it, pending regulatory approval, and that this would be unaffected by a potentially higher bid.

PNG, which is headed by retired Consumers chief financial officer and ardent Canadian nationalist Mr Warren Hurst, said it would strongly oppose British Gas's offer at forthcoming regulatory hearings.

It would claim that the offer was contrary to the public interest.

"We believe the sale to British Gas would make Consumers vulnerable to foreign political developments," Mr Hurst said.

Opposition to the British Gas offer will also be based on the potential for conflicts of interest.

For example, Mr Hurst said British Gas could discourage Consumers from purchasing its own gas fields or producing companies.

The British Gas offer for Consumers, made in March, is subject to approval by the Ontario Energy Board and by Investment Canada, the federal agency which monitors foreign investments. The OEB is expected to start public hearings towards the end of next months.

The PNG proposal met with a sceptical response in Canadian investment circles yesterday.

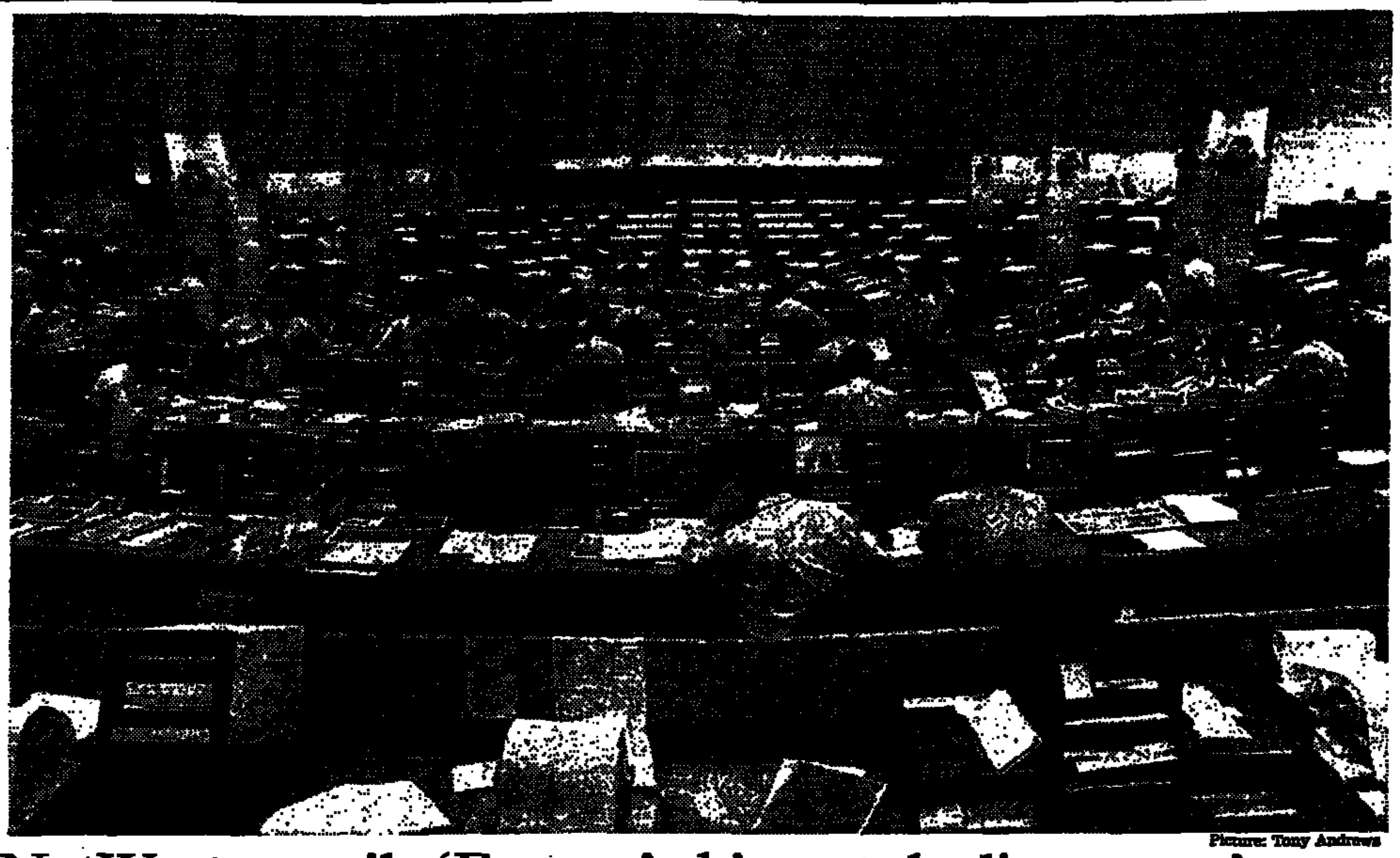
One securities analyst said yesterday that the Reichmanns will almost certainly prefer the offer from British Gas.

He added that tight regulatory controls on utilities severely restrict the room for manoeuvre of any shareholder, domestic or foreign. British Gas' offer of more than 12 times Consumers' earnings is widely viewed as a fair one.

But in a clear effort to win public support for its bid, PNG outlined an innovative plan to distribute Consumers shares among its residential customers. These might ultimately own more than half the company.

Customers would buy a new class of common shares, with the purchase cost added to monthly gas bills. Dividends on the shares would be credited monthly against gas charges.

Consumers serves more than 1m customers in the prosperous industrial region of southern Ontario. British Gas has indicated that it will use Consumers as a springboard into the US market.



Picture: Tony Andrews

NatWest unveils 'Europe's biggest dealing room'

THE UK trade deficit in April – which weighed in yesterday at a heavier-than-expected £1.78bn (\$2.9bn) – was met with unruffled calm at NatWest's new dealing centre in Bishopsgate, believed by the bank believes to be the biggest integrated dealing complex in Europe, writes Rachel Johnson.

Shaped like a dart board, the cable traders in US dollars and sterling sit in the bull's eye, along with their counterparts specialising in the D-Mark and the rest of the major trading currencies. National flags on terminals mark out the zones.

The other rings of the trading floor – with 75,000 sq ft and 305 dealer positions – provide elbow-room and multiple, touch-screen telephone lines for dealers in the money and capital markets and teams for risk management and product development. Strategists had advised forex dealers to expect a short run on sterling if the deficit exceeded expectations of about £1.5bn. In the event, the overshoot – although dealers had placed clocks on their desks set for the statistic's release time of 11.30 am – proved something of a false alarm.

The currency markets budged little at the news and sterling finished the day up a pfennig against the D-Mark at DM2.8325, and almost unchanged against the dollar, at \$1.6935.

Traders had more action in the futures and stock markets, where prices were depressed by both the trade figures and a fall in US durable goods orders for April.

Paribas and Mixte near accord to end stalemate

By **George Graham** in Paris

PARIBAS, the French investment banking group, is on the point of reaching a peace settlement with Compagnie de Navigation Mixte, the champagne-to-insurance conglomerate for which it last October launched an unsuccessful FFr26bn (\$4.7bn) takeover bid.

The two sides have been in stalemate since the bid, which left Paribas with a 40.3 per cent stake in Mixte, while the latter, in a "Pacman" defence, acquired more than 12 per cent of the banking group.

Mr Marc Fournier, chairman of Mixte, and Mr André Lévy-Lang, the head of Paribas's financial services subsidiary, Compagnie Bancaire, are in negotiations. Mr Lévy-Lang is to become executive chairman of the group, once a change in its statutes to a two-tier structure of management and supervisory boards is approved by a shareholders' meeting on Wednesday.

The peace settlement is expected to involve Paribas reducing its stake in Mixte to 30 per cent – lower than a blocking minority – while the conglomerate cuts its stake to less than 10 per cent. This would place it on the same footing as Assurances Générales de France (AGF), the state-owned insurance company, and Parfinance, the financial holding, and slightly ahead of the UAP and Axa insurance groups.

The two companies are also likely to exchange board members, although it is not yet clear who will be named as directors.

The Paribas shareholders' meeting next week is felt to be a spur to the negotiations, as the investment bank requires a two-thirds majority to pass the changes in its statutes. However, its board managed to muster more than two-thirds of its capital at its last shareholders' meeting in February, when Mixte chose not to be represented.

Mixte's shares yesterday were trading between FFr1,900 and FFr1,948, above Paribas's final cash offer of FFr1,887 a share, and about 25 per cent above the investment bank's estimated average acquisition cost, taking the paper component of its offer into account.

Besides changing its formal management structure, Paribas is also expected to reorganise its functions, with a more clearly-defined split between the investment banking activities of Banque Paribas and the industrial investments managed by the parent, Compagnie Financière de Paribas.

Sanso and Aga in EC venture

By **Robert Taylor** in Stockholm

NIPPON Sanso, Japan's leading industrial gas company, announced yesterday that it was forming a joint venture in the European Community with Aga, the Swedish industrial gas group.

The new company, with initial capital of DM2.5m (\$1.5m) will be based in Frankfurt, West Germany. It will assemble and test hardware parts for the electronics industry.

The two companies said the venture will bring Japanese semiconductor technology closer to the European market. "We have high expectations for Aga as our partner," said Mr Ken Sasaumra, Nippon Sanso's electronic business managing director. European semiconductor and electronic manufacturing business is estimated to be worth \$3bn.

Matsushita plans to build large US electronics plant

By **Stefan Wagstyl** in Tokyo

MATSUSHITA Electric Industrial, the Japanese electronics combine which sells under the National, Panasonic and Technics brands, yesterday posted full-year consolidated net profits of Y235.6bn (\$1.54bn), an increase of 10 per cent.

The group also said it was planning to build a large factory in the US at Fort Worth, Texas, for information and communications equipment, including computers.

It declined to give details, but said an announcement would be made soon.

Japanese newspapers said the project could cost Y100bn – which would make it the largest direct investment in overseas manufacturing by a Japanese company.

Matsushita said the consolidated results for the year to March reflected its ability to develop successful new products even in difficult business conditions.

The largest gains in sales came from new products including hand-held video cameras, personal computers, and telephone-related equipment.

Overall, sales rose 9 per cent to Y6,003bn. Turnover in the communication and industrial equipment division, singled out by the company for its potential, increased by 24 per cent to Y1,375bn.

Sales in video equipment were up by 2 per cent to Y1,598bn; in audio equipment by 9 per cent to Y561bn; in home appliances by 3 per cent to Y802bn; in electronic components (including semiconductors) by 8 per cent to Y781bn; in batteries and kitchen equipment by 10 per cent to Y312bn; and in other products by 8 per cent to Y573bn.

Sales outside Japan rose 14 per cent to Y2,621bn, due mainly to an increase in overseas production.

Domestic sales were up 5 per cent at Y3,382bn.

Matsushita said the results reflected continuing strong capital investment and steady consumer spending in Japan, coupled to healthy sales overseas, in North America and elsewhere.

Consolidated operating profit totalled Y452.7bn, an increase of 8 per cent.

The net gain from financial investments rose by 17 per cent to Y104bn.

In the current year, Matsushita expects sales to rise to about Y6,400bn, a 7 per cent increase.

The group's total profits are forecast to rise by 4 per cent at the pre-tax level to Y595bn, and by 7 per cent at the net level to Y251bn.

Matsushita also announced results for the parent company alone.

Pre-tax profits rose 6 per cent to Y265.2bn on a sales increase of 4 per cent to Y4,249bn.

Top Chicago exchanges to link systems

By **Deborah Hargreaves** in London

CHICAGO'S two leading futures exchanges agreed yesterday to merge their electronic trading systems in a move that could create an industry-wide network for trading derivative products.

The merger, combining the trading systems of the Chicago Board of Trade and the Chicago Mercantile Exchange, will be developed by Reuters, the UK information group. It will provide a market for the exchanges' products when their trading floors are closed.

The joint system will prove a powerful tool in the international futures industry since it will enable traders around the world access to Chicago's products on a 24-hour basis.

Exchanges link trading systems, Page 20

UK stores takeover blocked

By **Andrew Hill** in London

KINGFISHER'S attempted takeover of Dixons Group, the UK electrical retailer, was blocked yesterday by Mr Nicholas Ridley, the Trade and Industry Secretary, but only after an extraordinary mix-up over publication of the Monopolies and Mergers Commission's report into the hostile bid.

The MMC document went on sale through Her Majesty's Stationery Office at 9am yesterday, a day before the Department of Trade and Industry had intended to publish its recommendations.

The London Stock Exchange suspended both stocks at 12.22 pm after Kingfisher, which owns Woolworth and the Comet electrical goods chain, warned about a possible false market.

But by then Dixons' shares had already been marked down from 131p to 125p and about 1 per cent of the group's stock had changed hands. Kingfisher's shares rose 7p to 315p before suspension.

The DTI finally confirmed that Mr Ridley had accepted the report's conclusions at about 1 pm.

The MMC decided that a merger between Dixons and Kingfisher would reduce competition in the UK electrical-retailing market, pushing up the price of goods.

Mr Stanley Kalms, Dixons' chairman, condemned yesterday's confusion, claiming it had prompted "legal insider trading," but he welcomed the DTI's decision.

Kingfisher, which launched its bid in December, had rejected an MMC suggestion that it could preserve competition by selling the Comet stores. In its turn, the MMC did not accept that the benefits of Kingfisher's proposals – thought to include price guarantees and forecasts of product market share – would offset the loss of competition.

Dixons' shares emerged from suspension to end the day down 7p at 124p, while Kingfisher's closed at 311p, up 3p.

Ralph Atkins writes: Premature disclosure of the report clearly embarrassed the Government.

When asked if he knew what had happened, Mr John Redwood, Corporate Affairs Minister, said: "I wish I did."

Mr Redwood said he had asked for an "internal report" on what took place between his department and HMSO.

Lex, Page 18

Land Securities asset rise calms UK property market

By Paul Cheeseright, Property Correspondent, in London

LAND SECURITIES steadied the nervous UK property share sector yesterday when it disclosed a slender 2.8 per cent increase in its net asset value.

The increase allayed fears that the declining fortunes of the commercial property market might have forced a reduction in the value of the UK's largest property investment and development group, with a portfolio worth £5.6bn ($9.24bn).

Property stocks this year underperformed the market but yesterday held generally steady while the rest of the market fell. Land Securities' shares, which have been at a sharp discount to their net asset value, were unable to hold an early rise but finished 3p higher at 498p.

However, the City view is that during its current financial year, Land Securities will be lucky to maintain its net *asset value, the favoured measure* of performance for property investment groups, at the level of 879p. This figure, for March 1990, compares with 855p a year earlier.

Widely seen as a barometer of the UK property sector, Land Securities in its last financial year saw the value of London West End offices and shops rise marginally, but office values in the City of London fell. These properties account for two thirds of the value of its portfolio.

In common with other groups specialising in city centre properties, Land Securities has found generally that rents have held up but that capital values have declined as confidence, hurt by the economic slowdown and high interest rates, has ebbed from the market.

Indeed, yesterday, Hillier Parker, chartered surveyors, said that its All Property Average Yield, a widely used market indicator, at 8.4 per cent, had recorded its highest quarterly increase in the three months to May of 0.6 percentage points.

Rental income is the staple of Land Securities's earnings and, in the year to March 1990, came to £276.4m against £231.6m the year before. Pretax profits were £175.1m compared with £149.2m. Earnings per share rose to 24.64p from 20.95p.

Winterthur to raise dividend and open stock to foreigners

By William Dullforce in Geneva

WINTERTHUR, the Swiss insurance group, proposes to raise its dividend, increase capital and start opening its registered stock to foreign ownership after reporting yesterday a 23 per cent improvement in 1989 group earnings to SFr270.3m ($190m).

Gross premium income within the group advanced by 12.1 per cent to SFr11.62bn last year, with new acquisitions accounting for only 15 per cent of the growth.

The parent company posted a 11.1 per cent improvement to SFr139.6m in net earnings on the back of a 10.1 per cent increase in premium income to SFr4.81bn.

The board recommended an increase in the dividend from SFr64 to SFr68 per share, and from SFr12.80 to SFr13.60 per participation certificate.

A two-part capital increase is proposed.

In the first part, new registered shares will be offered at a price of SFr2,000 per share at a ratio of 15-to-1 to all shareholders and holders of convertible bonds, and at a ratio of 75-to-1 to holders of participation certificates.

The second part will be combined with a warrant issue of SFr507m.

Shareholders will be offered bonds of SFr5,000 nominal value at the same ratios as for the first part. Each bond will contain five options, four of which will entitle the subscription to one new registered share.

In the first part, present holders of shares and participation certificates will be entered in the company's shares register regardless of their nationality.

In the second part, foreigners will be registered when exercising their subscription rights.

Conditions for the warrant issue will be published shortly before the annual general meeting scheduled for June 28.

Winterthur said they would include attractive subscription rights for all categories of securities.

Fuel costs and depreciation hit KLM

HIGHER fuel prices and financial costs helped push KLM Royal Dutch Airlines earnings down by 9 per cent to Fl 340m ($189m) in the 1989-90 fiscal year, from Fl 374m a year earlier, writes Laura Raun in Amsterdam.

KLM explained that higher depreciation also accounted for the profit drop.

Per share earnings fell 9 per cent to Fl 6.43 from Fl 7.08. Operating income plunged 21 per cent to Fl 310m in the year, which ended on March, 1990, from Fl 390m.

Revenue improved 8 per cent to Fl 6.5bn from Fl 6 bn.

KLM is 38.2 per cent owned by the Dutch Government and recently unveiled a quality improvement programme for the 1990s.

The full 1989-90 results are due to be published on June, 13.

Chicago exchanges link trading systems

By Deborah Hargreaves

CHICAGO'S two leading futures exchanges said they had reached agreement yesterday on the merger of their two electronic trading systems. The move could create an industry-wide network for trading derivative products.

The Chicago Board of Trade and the Chicago Mercantile Exchange have been discussing the unification of their trading systems for about a year. A joint system to be developed by Reuters, the UK information group, will provide an after-hours market for the exchanges' products when their trading floors are closed.

The two exchanges have not revealed details of their plan for a joint system, but they have delayed start-up of the electronic market until November. The CME had planned the much-delayed launch of its Globex after-hours trading system in June.

The CME has been pushing Globex as an industry benchmark, but it is now likely to have to accommodate ideas from the CBOT's own system, Aurora. The difference between the two is one of screen display and not technology. Reuters is likely to offer different screen displays for different types of traders.

The joint system will prove a powerful tool in the international futures industry, since it will enable traders around the world 24-hour access to Chicago's products.

The CME has been encouraging other exchanges to list their products on the system, and France's Matif has signed up. Talks with other exchanges around the world put on hold while the two Chicago giants discussed the merger are likely to resume.

Screen trading has been opposed by many independent traders in Chicago, who provide the lifeblood of the markets by trading for their own accounts. For this reason, the CBOT's screen system relies on trading skills.

Reuters is expected to offer a screen display similar to the CBOT's system for independent traders with Globex's spreadsheet display available for large brokers.

Bass to sell or lease out 2,400 pubs

By Philip Rawstorne in London

BASS, the UK brewing and hotels group, is to sell or lease 2,400 pubs over the next two years to comply with government requirements for continuing both its brewing and pub retailing operations.

Mr Ian Prosser, Bass chairman and chief executive, said yesterday that a review of the company's activities after the Monopolies and Mergers Commission (MMC) inquiry into the brewing industry had concluded that the move would be in the best interests of shareholders. "The value of Bass businesses as one group is higher than their value as stand-alone businesses," he said. "In our view the prospects for both brewing and pub retailing within Bass continue to be excellent."

Bass yesterday reported interim pre-tax profits more than 10 per cent higher at £247m ($407m).

Operating profits from its breweries were £84m, up 26.7 per cent; and the contribution from its pubs increased by 15 per cent to £115m.

After the recent MMC inquiry, Bass and other national brewers were ordered by the Government to free half of their pubs, above a ceiling of 2,000, from tied beer supplies by November 1, 1992.

Bass, the UK's biggest brewer owns 6,800 pubs nationwide, some 36 per cent of them managed and the rest tenanted.

It is from the generally less-profitable tenanted estate that most of the disposals are expected to be made.

Mr Prosser said that a detailed, pub-by-pub evaluation would be made to decide which should be freed from the tie and whether they should be sold or converted to commercial arm's-length leases.

The exercise would entail "significant" costs, he said, but should not involve many job losses.

It is expected that most of the 2,400 pubs will be leased.

But any Bass pubs that were sold should command good prices, Mr Prosser added.

"On average our pub estate is 50 per cent better, whether you measure it by volume sales or profits, than anyone else's," he claimed.

The MMC shake-up has already brought many pubs on to the market. Scottish & Newcastle has disposed of some 300 to reduce its estate below the 2,000 limit, Allied-Lyons has sold around 100, and Whitbread a further 50-60.

Prices have so far held up well – around £500,000 to £600,000 for managed houses at the top end of the market to £125,000 at the bottom end of the range. The prospects of a glut remain. Allied-Lyons has yet to decide whether to remain in both brewing and retailing, but if it does it will have to free more than 2,200 pubs.

Whitbread is already examining which of 2,275 pubs it will lease or sell.

If the Grand Metropolitan breweries-for-pubs swap with Courage – currently being investigated by the MMC – goes through, a further 3,500 pubs will be freed from the tie.

Lex, Page18

French furniture company buys 16.5 per cent stake in Facom

By George Graham in Paris

FINANCIERE Strafor, the French diversified office furniture company, has taken a 16.5 per cent stake in Facom, Europe's leading hand tools manufacturer, for around FFr500m ($89m).

The stake has been acquired from the Moses-Zoummeroff family, and appears to counter any ambitions of Sweden's Bahco, which has a stake of around 6.6 per cent in Facom, to take control. The price paid by Strafor values Facom at around FFr3bn.

Facom, which made net profits of FFr143m last year on sales of FFr1.89bn, has been expanding in Europe with the acquisition in January of Britool, the hand tools division of James Neill Holdings, for around £12m ($20m).

Its family shareholders, however, have been seeking to disengage, and the company has been looking for a partner to take their place.

Other leading international hand tool groups, such as Stanley in the US or Sweden's Sandvik, are understood to have been interested in taking a foothold in Facom.

Strafor, meanwhile, is France's leading office furniture supplier but, despite a number of acquisitions in related fields, such as the Italian desk accessory maker Bruno Danese or the Dutch chair maker Artifort, it has been seeking to diversify. The company is counting on another 50 per cent rise in net profits this year from 1989's FFr164m.

Eurexpansion to take 25% of E&T

EUREXPANSION is to take a shareholding of 25 per cent in Ekonomi & Teknik Media (E&T), the Swedish media group formed from the merger of publishing group Ingenjorsforlaget and business magazine Affaersvaerlden, AP-DJ reports.

Eurexpansion, which is part of Groupe Expansion, the French media company, said that E&T, with annual revenue of about SKr225m ($37m), will be the second largest Swedish media company after the Bonnier Group.

Eurexpansion will take an initial 12 per cent stake in newly-merged E&T, then increase its shareholding at a later date. In addition, the French company will occupy two of the eight seats on the E&T executive board.

Eurexpansion has been developing links recently with business and economic media organisations throughout Europe.

The link with E&T represents its first foray into Scandinavia and makes Sweden the twelfth European country in which Eurexpansion will have a presence.

Affaersvaerlden, with a circulation of 26,000, will be the fourteenth business weekly to be affiliated with the French group. Ingenjorsforlaget is the leading Swedish technical publisher.

Shareholders in Eurexpansion, which was formed in 1989 by Mr Jean-Louis Servan-Schreiber, Groupe Expansion's chief executive, include Dow Jones of the US, West Germany's Handelsblatt and Estructura of Spain.

Renault and DAF invest in van range

By Kevin Done in London

RENAULT and DAF are to invest Fl 1.3bn ($693m) in the development of their new generation of medium-heavy vans to be produced in France and the UK.

The two companies signed a final contract for the project yesterday. This will establish a total capacity for producing around 90,000 vans a year.

DAF, the Dutch commercial vehicle maker, is aiming to produce around 40,000 vans a year at its Birmingham, UK van plant, with production beginning in 1994-95. Renault will produce the planned 2.5-4.2 tonnes (gross vehicle weight) van range at its Batilly plant in eastern France.

The Renault and DAF ranges, which will be sold through the companies' separate dealer networks, will have the same engines, mostly produced by Renault, but with some purchases from other vehicle makers.

The new van range will replace Renault's existing Master series and part of its Trafic range, and DAF's existing 200-400 van range. Currently Renault produces around 45,000 vans a year of this type while DAF makes 24,000.

Moody's downgrades $31bn of Citicorp's senior debt

By Alan Friedman in New York

THE credit rating of Citicorp, the largest US bank holding company, has been downgraded by Moody's Investor Service, the US credit rating agency.

The move, which affects $31bn of senior debt, is another sign of rising concern in the US about expected 1990 real estate loan losses.

Moody's action, late Tuesday, comes more than three weeks after Citicorp's rating was lowered to AA minus from AA by Standard & Poor's, the other leading rating service.

It also comes nearly two weeks after Mr John Reed, Citicorp chairman, took the unusual step of personally predicting the Moody's downgrade.

Moody's judgment on the leading US bank is harsher than S & P's. Moody's has lowered Citicorp's senior debt rating by two notches to A3 from A1. This means that Moody's rating is three notches below the S & P reduced rating of AA minus.

Moody's said the downgrade was in response to Citicorp's deteriorating asset quality, as evidenced by rising domestic non-performing assets and charge-offs, particularly in the real estate portfolio.

Citicorp already has $1.3bn of non-performing real estate loans, or 9 per cent of its $12.6bn portfolio.

The bank has said these non-performing loans could rise by $500m to $600m this year.

Citicorp said it was "very disappointed" by the Moody's downgrade, but insisted it did not expect any significant increase in overall funding costs.

The bank closed 1989 with a 3.6 per cent capital ratio – well below the 4.4 per cent average of its competitors.

Drexel intends to present court with reorganisation scheme

By Janet Bush in New York

DREXEL Burnham Lambert, which filed for Chapter 11 bankruptcy protection in February, is planning to present the court with a reorganisation scheme which would allow it to emerge from the proceedings at some stage.

In disclosing these plans, Drexel said it wanted to remain in business, but a spokesman said it was uncertain what kind of business would emerge if the company emerged from Chapter 11.

"We are not aiming to be in business for business sake," said the spokesman. "But it won't be the old Drexel."

The thinking behind presenting a reorganisation plan appears mainly to be an attempt to maximise value for the company's 1,000 shareholders whose stock holdings are currently almost worthless.

There is also a desire to carry forward a large tax loss which would lower the tax payable on future profits if the company were to remain in some kind of business.

The spokesman added that Drexel still had assets of more than $1bn, including holdings of securities and some equity positions. There are around 600 employees still working at the company, of which only 30 to 40 are professionals rather than administrative or clerical staff.

They are spending their time effectively managing or trying to sell what assets remain at the company and completing some transactions from before the bankruptcy.

"They are pretty much trying to figure out each piece of paper," said the spokesman. "We are not out actively looking for new business."

Ikea offers drivers a new place to crash

By Karen Zagor in New York

"Avoid the New Jersey turnpike. A furniture store is opening," said a local New York television traffic report yesterday morning. The unnamed furniture store was Ikea, owned by the big Swedish retailing group.

Ikea burst into the Manhattan outskirts in a blaze of advertising which included plastering the city's buses with signs saying: "Find a new place to crash on the New Jersey turnpike," and sending glossy catalogues to virtually every home in the city. The first person through the doors yesterday morning was offered everything on the catalogue's cover.

The 270,000 sq ft store in Elizabeth, New Jersey is the company's largest outside Europe and its fifth in the US. It is part of Ikea's latest thrust into the US.

The company plans to double its US store capacity in the next year, and more than 12 new stores are expected to open over the next five years.

This could bring the company's US store sales to more than $1bn by the mid-1990s. In 1988, Ikea's three US stores had sales of $140m.

At present, about 15 per cent of Ikea's $2.3bn in sales comes from outside of Europe. Although home furnishing sales have been slipping in the US, Ikea has been inordinately successful here.

The company lures customers into its stores by offering a slew of services, including restaurants and supervised playrooms for children, in addition to a vast range of modern, low-priced furniture.

Costs are kept down by relying on customer-assembly of furniture.

The company does not ship its furniture; instead, it lends car roof racks to customers who cannot cram their purchases into their cars.

Outside of the US, Ikea is moving into eastern Europe. The company opened a store in Budapest in February and additional stores are slated for Poland and the USSR.

Disappointing half-year for ANZ

By Kevin Brown in Sydney

AUSTRALIA and New Zealand Banking Group (ANZ) yesterday became the third of Australia's big four banks to announce disappointing profits for the six months to March, providing further evidence of the impact on the economy of the Government's high interest rate policy.

Interim profits fell by 23 per cent after tax to A$310.3m (US$270m), boosted to A$365.9m after abnormal items. These were mostly profits on property sales and rationalisation of the group's UK stock-broking activities.

Westpac, Australia's biggest commercial bank, recently reported a fall of 8 per cent in interim net profits to A$354m, while National Australia Bank (NAB) reported an improvement of just 6.1 per cent to A$440m. Commonwealth Bank, which is owned by the federal Government, reports later in the year.

Like Westpac and NAB, ANZ blamed the poor result largely on a much higher charge against profits for bad and doubtful debts, which rose to A$224.5m from A$119.5 in the comparable period of last year.

However, Mr Will Bailey, ANZ's chief executive, was at pains to play down the group's exposure to large Australian corporate debtors, especially the entrepreneurs whose bad debts played a large part in reducing the profits of Westpac and NAB.

Mr Bailey said less than A$50m of the bad debt charge was attributable to large Australian corporate customers. Two thirds of the charge related to loans to small and medium sized Australian businesses, A$30m to New Zealand businesses, and A$10m to other overseas customers.

"Much of the small and medium business provisioning can be directly attributable to the lengthy period of very high real interest rates at a time of reducing economic activity," he said.

"These types of businesses are traditionally highly geared, and are susceptible to failure when cash flow weakens and borrowing costs increase. Unfortunately, small and medium business, Australia's largest employer and a major wealth creating segment of the economy, is bearing the brunt of current government economic policy."

Mr Bailey said the impact on net profits of the high level of debt provision masked an otherwise good operating result. Profits in New Zealand increased by 58 per cent to A$40m, and ANZ's worldwide activities improved by 36 per cent to A$118m.

Operating costs were down 1.6 per cent on the previous six months.

In common with Westpac and NAB, ANZ said it expected some improvement in operating profit in the second half. The dividend was maintained at 22 cents.

The shares closed 20 cents higher at A$4.90. This was partly because of the impact of the Government announcement blocking a proposed merger between ANZ and National Mutual Life Association.

Ferruzzi Agricola income declines by 19.4% to L253bn

By John Wyles in Rome

FERRUZZI Agricola Finanziaria, Mr Raul Gardini's industrial holding company, reported a 19.4 per cent fall in net profits to L253bn ($207m) on net sales of L14,773bn.

However, total net profits, before minority interests, rose 26 per cent to L1,362bn. The company said this was a result of higher earnings from its agri-industrial companies, Eridania and Beghin Say, and the extraordinary gain from transferring Montedison's basic chemicals assets to Enimont, the joint venture with Eni, the state energy company.

Ferruzzi attributed the fall in net income to the fact that 1988 results were inflated by non-recurring gains, especially the L240bn sale of a majority stake in Mira Lanza, the paper and detergents company.

The group's gross operating profits also registered a decline from L2,082bn to L1,820bn. The 1988 result has been restated by excluding the operations transferred to Enimont.

Ferruzzi attributed the decline to a fall in operating profits at Montedison, and to restructuring costs which were only partially offset by an improvement in the agri-industrial sector.

Transfers to Enimont helped to reduce group net debt from L8,237bn to L6,755bn. Investments in fixed assets in 1989 were around L1,000bn, while research and development spending reached L488bn.

● Latina, the insurance and financial services group controlled by Mr Carlo De Benedetti, reports lower profits for 1989 with after-tax earnings dipping to L27.3bn from L29.5bn a year earlier. The fall in parent company net profits was even more marked. They fell from L26.5bn to L21.9bn.

Group premium income totalled L582.5bn, an increase of 12.5 per cent, Latina said. The company plans to pay an unchanged dividend of L150 a share.

Raul Gardini: his company gained on agri-industrials

Solid gains in Japanese audio sector

By Martina Gannon in Tokyo

TDK of Japan, the world's largest manufacturer of magnetic tapes, saw pre-tax profit growth of 9 per cent to Y44.2bn ($289.5m) in the year to March as demand rose for electronic components used in televisions and computers.

Sales were up 7.1 per cent to Y379.2bn and net income was Y21.7bn, an increase of 19.6 per cent. The figures are based on extrapolation of the term ended March 1989, which covered only four months due to a change in the company's accounting period.

TDK sees demand for magnetic tapes continuing to grow in 1990. It predicts pre-tax profits of Y49bn, up 10.8 per cent, and sales of Y395bn.

Elsewhere in the audio sector Pioneer Electronic, Japan's leading laser video disc maker, reported a rise of 49 per cent to Y34.8bn in pre-tax profits for the year.

Sales totalled Y357bn, a rise of 17.9 per cent, as demand grew for laser disc players and car audio equipment. Net income was up 79.7 per cent to Y19.8bn on sales of stock holdings after the cancellation of a joint venture project with the Warner group of the US.

The company is paying a Y20 annual dividend. It sees pre-tax profits rising a further 17.6 per cent this year to Y41bn, and sales increasing to Y400bn, up 11.8 per cent.

Pre-tax profits of Aiwa, a medium-ranking equipment maker that is affiliated to Sony, soared 153.6 per cent to Y3.4bn in the year due to streamlining and exchange gains on the depreciation of the yen.

Sales jumped 29.7 per cent to Y112.1bn and net income almost trebled to Y3.1bn. But the company, which has not issued dividends since 1986, held back payment again because of a cumulative loss amounting to Y9bn last year.

Aiwa foresees pre-tax profits rising 8.8 per cent to Y3.7bn, with sales of Y125bn.

● Kokusai Electric, an electronic components maker, lifted annual pre-tax profit to Y10bn from Y9.2bn as sales rose to Y109.7bn from Y99.5bn. A Y8 dividend, although up from the previous Y6.50, includes Y2 in special payments. Pre-tax profits this year are forecast at Y10.5bn.

Ford-Werke investment hits profits

By Andrew Fisher in Frankfurt

PROFITS of Ford-Werke, the West German subsidiary of Ford Motor of the US, again fell sharply last year, mainly as a result of heavy investment costs associated with the development of new models.

Despite record sales and production figures, net profits were down by a third from DM545m to DM362m ($213m). The 1989 figure was published in the official gazette in a notice announcing the annual meeting. Ford gave no explanation for the profits drop which followed a 33 per cent fall in 1988 from DM810m.

However, the German company is in the middle of a heavy investment programme, more than double that of the previous five years and involving around DM8bn up to 1993. Most of the money is being spent on new models and the rest on plant rationalisation.

This autumn it will launch the new generation of the Ford Escort compact family car, having brought out the latest Fiesta at the bottom of the range just over a year ago.

The company is also working on the replacement for its larger Sierra model; this will be sold in both Europe and North America.

"We are financially very healthy, so there are no problems," Mr John Hardiman, Ford-Werke's chief executive, said earlier this year. "But we need to renew our product range, and rapidly. This reflects the competitive situation."

The company has already announced a 1.4 per cent rise in sales to just over 1m vehicles, of which around 70 per cent was exported. It has also been striving to improve its market share in Germany.

Carnival files $700m ship-building lawsuit

By Martin Dickson in New York

CARNIVAL Cruise Lines, one of the world's leading cruise operators, yesterday announced it had filed a $700m lawsuit against the Finnish groups Wärtsilä and Valmet over a ship-building contract.

The suit, filed in the US Federal Court in Miami, Florida, seeks over $700m in damages and alleges the Finnish companies made misrepresentations about the financial condition of Wärtsilä Marine Industries, their ship-building subsidiary, when getting contracts from Carnival to build three large cruise vessels.

The suit says Wärtsilä Marine went into bankruptcy in 1989 without fulfilling the Carnival contracts, causing the late delivery of two vessels and non-delivery of a third.

Carnival says it suffered over $400m in damages due to increased construction costs and loss of bookings, and also seeks $300m in punitive damages.

Carnival says a report by independent Finnish auditors released earlier this month indicated that when Wärtsilä Marine was formed, in early 1987, Oy Wärtsilä and Valmet transferred to the company overvalued assets and ship-building contracts with huge hidden losses.

As a result, the suit claims, representations made to Carnival about the company's assets and prospects were false.

James River results down in weaker paper industry

By Karen Zagor in New York

JAMES River, the US integrated manufacturer and converter of pulp and paper, yesterday reported lower earnings for the fourth quarter and full year, reflecting weakness in the US paper industry and the high price of log chips.

Net income for the three months to April 29 was largely distorted by a number of non-recurring charges which were only partly offset by an after-tax gain from the sale of the company's non-woven's division.

Reflecting these items, net income in the 14-week quarter was $50.8m or 55 cents a share, a sharp drop from the $74.3m or 84 cents reported in the 13-week fourth quarter of 1989.

Excluding the extraordinary items, earnings per share in the latest quarter were 69 cents, against 78 cents.

Sales slipped 7 per cent in the latest three months to $1.52bn.

For the whole of 1990, James River saw net income decline to $221.6m or $2.45, from $255.1m or $2.87 a year earlier. Sales were modestly higher, at $5.95bn, against $5.87bn. Excluding one-time items, the company said its per-share earnings in 1990 were $2.66, down 7 per cent from $2.86 the previous year.

The company said its towel and tissue and packaging businesses reported higher earnings in the quarter.

The communication paper and specialty papers businesses had lower earnings, reflecting a down cycle in the industry. However, conditions appeared to be improving in some communications grades towards the end of the quarter.

Chrysler drops sales of defence units

By Martin Dickson

CHRYSLER, the US automobile group, has abandoned plans to sell three defence-related businesses because it has not received a sufficiently high offer for them.

The company put its Chrysler Technologies subsidiary up for sale six months ago to focus on its core automobile business, and in March sold the largest of its operations, aircraft maker Gulfstream Aerospace, for $825m.

But no buyers at the right price were found for Electrospace Systems, Airborne Systems and Pentastar Electronics. The three companies, which are profitable, employ some 3,500 people.

The failure to sell the businesses points up the uncertain mood in the defence industry as the Congress debates further military cutbacks.

Overseas side boosts Komatsu

By Ian Rodger in Tokyo

CONSOLIDATED net income of Komatsu, the world's second largest construction equipment group, jumped 31 per cent to Y27.3bn ($178.8m) in the year to March, thanks to strong demand in Japan, Western Europe and Asia.

Group revenues rose 11.9 per cent to Y887.1bn, of which Y277.3bn came from overseas.

Sales of construction equipment were up 9.9 per cent to Y603.9bn, with domestic sales in this sector up 6.3 per cent to Y356.8bn. The group said sales of hydraulic excavators and mini excavators did particularly well.

Sales of industrial machinery, mainly small and medium size presses, metal fabricating machinery and industrial robots, rose 9.5 per cent to Y66.5bn on the basis of buoyant domestic demand.

Parent company pre-tax profits rose 39.7 per cent to Y39.9bn on sales up 10.9 per cent to Y628.5bn.

The group said it expects consolidated net income to advance a further 7.1 per cent to Y34bn in the current year, thanks to continued favourable conditions in Japan, the development of new products and businesses and the expansion of output at its US and European factories.

● Increased exports to south east Asia and brisk domestic demand boosted the pre-tax profits of Hino Motors, Japan's leading truck manufacturer, by 18.4 per cent to Y19.6bn ($128m) in the year to March.

The company, part of the Toyota Motors group, posted sales of Y599.9bn, 12.1 per cent up on last year, as the favourable domestic business climate helped spur demand for trucks. Net income was up 70.4 per cent to Y9.8bn.

Hino will pay a maintained annual dividend of Y6 per share, but will add a special Y1.5 payment to commemorate the company's 80th anniversary.

The group expects demand to remain strong in 1990. It foresees pre-tax profits rising 2 per cent to Y20bn and sales going up to Y600bn.

Strong demand and weak yen spur Casio

By Martina Gannon

CASIO COMPUTER of Japan, a leading digital watchmaker, announced an increase of 35.6 per cent in pre-tax profits for the year to end-March as the yen weakened and world-wide demand for electronic goods, including memo books and desktop calculators, soared.

Pre-tax profits reached Y13.9bn ($91m) on sales of Y255.1bn, which is an increase of 8.9 per cent.

Demand for digital watches was also strong, with sales rising 13.5 per cent, offsetting a decrease in musical instrument sales.

Casio reported foreign exchange gains of Y4bn.

The company has set aside Y10bn for capital spending in the current year, which will be concentrated on electronic devices.

The directors forecast a pre-tax profit increase of 11.5 per cent to Y15.5bn, while sales are expected to reach Y280bn.

Jarden Morgan agrees to sell Australian operations

By Terry Hall in Wellington

JARDEN MORGAN, the New Zealand financial services group, stepped up its asset disposal programme yesterday by announcing it had entered an agreement to sell most of its Australian operations to the Singapore-based First Capital Corporation.

First Capital is 51 per cent owned by Dao Heng Holdings of Hong Kong. Its major shareholders are Hong Leong Malaysia and the Kuwait Investment Office.

The proposed sale is believed to be worth around NZ$25m ($14.28m) – although negotiations are continuing – and raises questions over the future of the New Zealand listed company.

If the latest deal is finalised, Jarden appears to have sold around NZ$107m worth of assets in recent months, suggesting it is becoming a cashed-up shell with substantial assets.

Assets already sold include Jarden Morgan Europe, the Luxembourg-based financial services group, the Canadian, British and Australian foreign exchange and precious metals business of Deak International, and other property investments mainly in Australia.

The latest deal involves broking and estate agency activities in Australia acquired through the 1988 merger between Jarden Corporation and Deak Morgan. It represents around half Deak's shareholder funds in

● A S$47.2m (US$25.5) share offer by G.K. Goh Holdings, a Singapore stockbroker, has been 107 times oversubscribed.

It will be the first stock to be traded scripless on the Stock Exchange of Singapore's main board.

An issue earlier this year by Kim Eng Holdings, the first broker to be listed, was 783 times oversubscribed.

Wearne joins US buy-out

By Our Financial Staff

WEARNE BROTHERS, a Singapore trading group, lifted pre-tax profit 45.4 per cent to S$28.4m (US$15.4m) in the half-year to March and is joining a US computer peripherals buy-out.

It will own just over half of Qume, a maker of IMB compatible equipment, after a US$80m takeover in partnership with Mr David Lee, Qume chief executive. They are offering US$7.25 a share for the company, which is Nasdaq quoted.

Wearne is providing a US$70m term loan for the deal, which it will fund partly through bank borrowings.

Interim Wearne sales were S$404.8m, up 57.9 per cent. The dividend is held at 7 cents.

INTERNATIONAL CAPITAL MARKETS

London moves to catch up on reinsurance futures

By Deborah Hargreaves

LAST WEEK'S decision by the Chicago Board of Trade to pursue reinsurance futures has seen the London market scrambling to come up with similar contracts. Non-insurers are looking to the development of derivatives on insurance products as a lucrative new sector and London's exchanges are eager not to miss out on what could prove a huge market.

A joint initiative between London's International Commodities Clearing House, leading insurance brokers and economists to develop a reinsurance product that was shelved last year because of opposition from Lloyd's of London has been resurrected. The group is meeting with London's Futures and Options Exchange (Fox) to discuss trading the contracts on its system.

In addition, the London International Financial Futures Exchange (Liffe) is looking at reinsurance, although the exchange stresses that its ideas are at a very preliminary stage. Several non-insurance firms are also looking at muscling into the sector.

The moves to develop insurance derivatives are likely to have the effect of modernising the outdated practices that reign in the insurance world, where individual insurance companies operate without access to price indices or any kind of transparency in pricing of their reinsurance needs.

Mr Trevor Slade, finance director of the London Clearing House, an arm of the ICCH which is responsible for most of the clearing and settlement in London's derivatives markets, believes it could take as long as two years to get its contract up and running on Fox's screen trading system.

The CBOT is ready to submit its own contracts for approval and says they could be listed on the exchange in six months' time.

However, the London group has already tackled most of the problems in constructing a contract and could launch it much sooner if it can encourage insurance companies to co-operate.

Two leading insurers have been involved in drawing up the contract which would be based on an index of reinsurance prices, but they are keen to obtain approval from Lloyd's.

Lloyd's has in the past remained aloof from any discussion on insurance derivatives, an attitude that reflects in large part corporate suspicion about the futures and options market in the UK.

The UK initiatives differ from the two contract proposals made in Chicago since they are looking to tap the multi-billion pound marine insurance sector. Chicago is focusing on two relatively small parts of the property-casualty insurance market by basing its contracts on car collision and healthcare policies.

Some non-insurers in London are encouraging the exchanges to go ahead and launch reinsurance futures since they are looking for a vehicle to hedge a growing involvement in the market. They are looking to create forward contracts in reinsurance for customers and provide increasing competition for the highly secretive insurance brokers in the sector.

Bell Canada launches C$125m 10-year deal

By Andrew Freeman

THE Canadian dollar sector of the Eurobond market was unexpectedly tapped late yesterday by Bell Canada which launched a C$125m 10-year deal via UBS Phillips & Drew.

The deal came against an uncertain market background following the extraordinary political chaos in Canada.

Although the government bond market was rallying yesterday after Tuesday's bad falls, Canadian dollar Eurobonds were extremely weak.

INTERNATIONAL BONDS

At the long end of the maturity curve, prices were down by as much as 2 points early on before riding the wider rally and closing around 1½ points lower.

The Bell Canada bonds carried an attractive 12⅜ per cent coupon.

The deal was designed as a fixed-price re-offer at 99.80, giving investors an 83 basis point pick-up over the equivalent government bond.

Traders said the terms appeared to offer no premium to an outstanding Bell nine-year issue and that there was little demand for paper in the sector.

There was comment that UBS P&D had aimed the deal at a pocket of demand in Switzerland. The issue proceeds are thought to have been unswapped.

Elsewhere, there was limited new issue activity. A FFr750m six-year deal for Credit Commercial de France was brought by its own underwriting subsidiary to a reasonable reception.

The paper was priced at 101¾ to give a 68 basis point pick-up over OATs.

For much of the day, CCF was quoting the bonds at less 1.85 bid, but a late sell-off in the French market saw the price slip to less 1⅞ bid towards the close.

CCF said good domestic demand was supplemented by interest from German investors which had recently been absent from the market.

Tokyo Tatemono, the Japanese property company, launched a successful Y20bn seven-year deal via Daiwa Europe.

The bonds were well bid in Japan and amid further European demand Daiwa was quoting the paper inside fees at less 1⅝ bid.

An international programme of issues transferable into domestic bonds got underway for Queensland Treasury Corporation with an A$100m three-year issue via Warburg Securities and a $100m two-year Yankee issue from Merrill Lynch. The programme of A$500m is extendable to A$1bn and follows a roadshow.

The Swiss market enjoyed a session buoyed by investor optimism and traders reported good volumes ahead of today's Ascension Day holiday. Most issues rose between ¼ and ½ point. The recent SFr100m 7½ per cent General Motors deal improved from less 1¼ to less ⅜ bid.

In a quiet dollar market, Salomon Brothers said the $1.4bn SCCT global issue was trading steadily in reasonable two-way business. The A tranche was quoted at 99.78 bid, at a spread of 80 basis points over Treasuries. The downgrading of Citicorp by Moody's had no effect on the securities which are independently rated.

International swaps growth moderates

By Stephen Fidler, Euromarkets Correspondent

THE RATE of growth of the international swaps market slowed moderately last year, according to figures from the International Swap Dealers Association.

Outstanding contracts at the end of last year topped $1,900bn in notional principal – the hypothetical underlying amount on which swap payments are based – up from just over $1,300bn at the end of 1988.

The slowing of growth was more marked in the smaller currency swap sector of the market than in interest rates.

Outstanding interest rate swaps grew by nearly 49 per cent in 1989, compared with 48 per cent last year.

Some $1,500bn in such swaps were outstanding at the year-end.

Currency swaps grew by almost 38 per cent compared with 73 per cent in 1988, and at the year-end some $435bn of such swaps were outstanding.

Overall market growth slowed to 46 per cent from 53 per cent.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
CANADIAN DOLLARS						
Bell Canada(a)◆	125	12⅜	99.80	2000	2/1½	UBS Phillips & Drew
AUSTRALIAN DOLLARS						
Queensland Treasury Corp(b)◆	100	12	98.416	1993	50bp	S.G. Warburg Securities
FRENCH FRANCS						
Cr. Commercial de France(c)	750	10¼	101¾	1996	1⅞/1¼	CCF
YEN						
Tokyo Tatemono(c)◆	20bn	7	100⅝	1997	1⅞/1¼	Daiwa Europe
CIBC(d)◆	3.5bn	11¼	101⅛	1991	1⅛/⅝	New Japan Securities
ECUs						
Eurofima(e)◆	200	10⅜	101.65	1995	1¼/1¼	Credit Lyonnais

◆Final terms. a) Fixed reoffered price. Non-callable. b) Fixed reoffered price. Non-callable. Issue price plus accrued interest. Non-callable. c) Non-callable. d) Redemption linked to Nikkei stock index. e) Issue increased from Ecu125m. Non-callable.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on May 23

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
B.F.C.E. 8¾ 94	175	†96¾	97¼	+0⅛	+0⅛	9.24
B.F.C.E. 9¼ 95	150	99⅞	99⅞	+0¼	+0⅛	9.32
Brit. Tel. Fin. 9⅜ 98	250	†98⅞	99⅜	+0⅛	+0⅛	9.51
Canada 9 96	1000	99⅛	99⅜	0	-0⅛	9.10
C.C.C.E 9¼ 95	300	99½	100⅛	+0⅛	0	9.30
Cr.Local France 8⅞ 99	250	†95½	96	+0⅛	+0⅛	9.49
Credit National 7⅜ 92	100	97	97⅜	0	0	9.06
Credit National 9½ 92	160	†100⅜	100⅞	+0⅛	-0⅛	9.17
Denmark 8¼ 94	150	†96¼	96½	+0⅛	+0⅛	9.30
E.E.C. 7 91	100	96¾	97⅛	0	-0⅛	9.04
E.E.C. 10 93	140	†101¾	102⅛	+0⅛	0	9.20
E.I.B. 8½ 99	150	94¼	94⅝	+0⅜	+0⅛	9.38
Eurofima 10⅛ 93	100	†102⅛	102½	+0⅛	-0⅛	9.16
Elec. De France 9½ 99	200	*99⅞	99⅞	0	0	9.51
Euro.Credit Card Tst. 9 95	750	97½	98⅛	0	-0⅛	9.59
Finland 9 96	250	98¼	98⅝	+0⅛	0	9.36
Finn.Exp.Cd. 8½ 92	200	98¾	99¼	0	0	9.09
Finn. Exp. Cd. 9⅜ 95	200	†99⅞	100¼	+0¼	+0¼	9.35
Ford Motor Credit 8 91	250	†99	99½	-0⅛	0	0.09
G.E.C.C. 10½ 91	300	100⅞	101⅜	0	0	0.09
G.M.A.C. 8¼ 94	500	†96½	97	-0¼	-0⅛	9.64
G.M.A.C. 9 96	300	†97¼	98¼	-0⅛	0	9.43
Gen.Mtrs.Corp. 9¼ 92	200	†99⅜	99⅞	+0⅛	+0¼	9.30
Honda 9⅝ 97	300	99	99½	+0⅛	-0⅛	9.76
IBM Credit Corp. 8⅝ 92	400	98¾	99⅛	0	0	9.05
IBM Credit Corp. 8⅞ 91	250	†99¼	99¾	0	-0¼	9.19
IBM Credit Corp. 9 92	250	99⅞	100⅛	-0⅛	0	9.04
IBM Credit Corp. 9½ 92	250	100⅜	100⅞	-0⅛	0	9.05
Italy 8½ 94	1500	97	97½	+0⅛	0	9.26
Italy 9½ 95	1000	100⅜	100⅞	+0⅛	-0⅛	9.32
Italy 9⅝ 99	1000	†100⅞	101⅜	+0½	0	9.42
Itoh C. W/W 4⅝ 94	1000	†97⅞	99¼	+0¼	-0¾	5.04
Japan Dev. Bank 10 96	200	†102⅜	102⅞	+0¼	-0⅛	9.41
KFW Intl. Fin. 9 94	300	98¾	99¼	+0⅛	0	9.26
L.T.C.B.of Japan 8¼ 96	200	95½	96	+0⅛	0	9.67
L.T.C.B.of Japan 9¼ 92	200	†99¼	99¾	0	-0⅛	9.44
New Zealand 9 94	850	98⅛	98⅝	+0⅛	0	9.45
Nippon Tel.&Tel. 8½ 96	200	95⅛	95⅝	+0¼	0	9.43
Nippon Tel.&Tel. 9⅜ 98	250	99⅛	99⅝	+0⅛	0	9.47
Norway 8¾ 93	500	†98⅞	99⅜	+0⅛	0	9.09
Oesters Kontbk. 9¼ 94	350	†99¾	100¼	-0⅛	-0⅛	9.46
Sumitomo Corp. W/W 4 93	1500	106¼	107¾	+0¾	-0⅜	1.66
Sweden 8¾ 96	200	†97¼	97¾	+0¼	-0⅛	9.31
Toyota Mtr.Corp. W/W 4 93	1500	†102¼	103¼	+0¾	+1	2.96
Victorian Rep 11⅝ 92	150	103¾	104¼	-0⅛	-0⅜	9.40
Union Bk. Switz. 9⅛ 02	225	96⅛	96⅞	+0½	+0⅛	9.61
World Bank 8⅜ 99	1500	†95⅛	95⅝	+0¼	+0¼	8.90
World Bank 9 97	300	†98⅜	98⅞	+0¼	+0⅛	9.25
World Bank 9 93	300	99½	99⅞	-0¼	-0⅛	9.13
World Bank 9¼ 98	300	†98⅞	99⅜	+0¼	-0¼	9.39
World Bank 9⅝ 99	500	101⅛	101½	+0½	-0⅛	9.37

Average price change... On day +0⅛ on week 0

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. BK. 6 94	200	88¼	88¾	0	-0⅛	9.17
Austria 6¾ 99	750	†86½	86⅝	+0⅜	-0⅛	8.99
Bk.Frgn.Econ.USSR 7 96	750	*84	84	0	0	10.82
Bank of Tokyo 5¾ 93	100	91¼	91¾	-0⅛	-0⅜	9.36
Commerzbank o/s. 5⅜ 93	300	91¾	92¼	0	-0¼	8.90
Credit Foncier 6¾ 99	500	†85¾	86¼	0	-0¼	9.11
E.I.B. 6¼ 99	600	83¼	83¾	0	-0⅜	9.06
E.I.B. 6½ 99	300	†85	85½	-0¼	-0¼	8.99
E.I.B. 6⅝ 96	600	88¾	89¼	0	-0⅛	9.11
E.I.B. 6⅞ 95	300	90¼	90¾	0	0	9.13
E.I.B. 8 2000	500	95¾	96⅛	-0¼	-0⅜	8.63
Euro.Coal& Steel 7¾ 94	100	†95¾	96¼	+0⅛	+0½	8.83
Eurofima 6⅛ 96	100	86½	87	0	-0⅛	9.19
Elec De France 5¾ 97	300	83	83½	-0⅛	0	9.06
Hydro-Quebec 6¼ 99	300	†85	85½	+0⅛	-0¼	9.26
Japan Dev. Bk. 5⅜ 95	300	†85¼	85¾	+0¼	+0¼	9.16
Japan Finance 5⅜ 97	100	82½	83	-0¼	-0⅜	9.30
I.A.D.B. 7¼ 99	300	88¾	89⅛	0	-0⅜	9.09
Ireland 6½ 97	300	85⅞	86⅜	-0⅛	-0¼	9.30
Ireland 7¼ 99	500	88¼	88¾	0	-0⅜	9.16
Malaysia 6¼ 94	150	88¼	88¾	0	0	9.77
Nat. West BK. PLC 6 98	300	†82¼	82¾	+0⅛	+0¾	9.20
Nippon Telg.&Tel. 6 95	400	†86¾	87¼	+0⅛	+0⅛	9.26
Oesters. Kontbk. 5 93	300	90¼	90¾	0	-0¼	9.12
Portugal 5¾ 92	150	93½	94	+0⅝	-0⅜	8.99
Portugal 6⅝ 95	150	90⅛	90⅝	+0¼	+1	9.01
Royal Insurance 5½ 92	300	93¼	93¾	+0⅛	+0⅛	9.41
Turkey 6½ 95	500	†87½	88	+0⅛	-0¼	9.72
Union Bk.Finland 5½ 94	200	†88¼	88¾	-0½	0	9.33
World Bank 6 98	500	†82	82¼	+0¼	-0⅛	9.12
World Bank. 6¼ 97	600	85	85½	0	-0⅜	9.17
World Bank 6¾ 99	600	85⅞	86¼	+0¼	-0¼	9.03

Average price change... On day +0 on week -0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5 96	150	†84½	85½	+0¼	+0¾	8.28
Asfinag 5 03	100	†79½	80½	0	0	7.42
B.F.C.E. 4½ 98	200	†83¼	83½	+0¼	+0¼	7.27
B.M.W.Fin.Neth. 5 13	150	†75	76	0	+1¼	7.22
Britannia B/S. 4¼ 94	100	†85½	87	-0½	-0½	8.39
CIR. Int. W/W 3 93	125	†86	87	+0⅜	+1	8.00
Credit Lyonnais 4¾ 00	100	†79	80	+0½	-1½	7.77
E.I.B 4⅝ 98	150	†82½	83	+0¼	+0⅝	7.55
Finn. Exp. Cd. 8¼ 92	75	†98	98½	+0½	+2¾	9.06
Fletcher Chall. 4⅞ 98	150	†77½	78	-0¼	+1	8.92
I.A.D.B. 6 2004	200	†87	87¼	-1¼	-0¼	7.49
Kobe City 4⅝ 98	150	†83	84	-0⅜	+2¼	7.40
Leeds Perm. B/S. 4¼ 93	200	†89½	89¾	-0⅜	+0⅝	8.30
Malaysia 5¼ 98	100	†81	81¼	-0⅜	-0⅜	8.56
Maxwell Comm.Crp. 5 95	150	†78½	79½	-1	-2	10.56
Nat.Bk. Hungary 5½ 94	75	†84	85	0	0	9.85
Nationwide Ang.B/S. 4 93	200	†88	88¼	+0⅜	+1	8.56
Prov. Newfoundland 5 03	150	†79	79½	0	+0⅝	7.48
Thailand 4⅝ 95	200	†83½	85	0	+1¼	8.53
World Bank 5 03	150	†79½	80½	-0¼	+0¼	7.42

Average price change... On day -0⅛ on week +0½

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Canada 5⅝ 93	80	96½	96¾	+0⅛	0	6.83
Cr.Local France 6¼ 94	300	97½	97¾	0	0	6.51
Denmark 6⅛ 95	300	97⅛	97½	+0⅛	+0⅛	6.53
Denmark 7 95	400	100⅜	100⅝	0	-0⅛	6.86
E.I.B. 4⅞ 93	30	95	95¼	+0⅛	0	6.85
Norway 5⅝ 95	50	93⅛	93⅝	0	0	6.73
Sweden 4⅝ 93	50	93⅞	94⅛	+0⅛	0	6.92
World Bank 5⅛ 98	10	89¼	89⅝	0	+0½	6.93
World Bank 7 94	20	100¾	101¼	0	-0⅛	6.70

Average price change... On day +0 on week 0

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey Nat. 10¼ 94 C$	150	–	–	–	–	–
Abbey Nat. 11⅝ 93 £	100	95⅜	95⅞	-0⅛	+1⅞	13.60
Aegon 7⅝ 92 Fl	100	97⅜	97⅞	0	0	8.10
Alg. Bk. Ned. 5⅜ 93 FL	200	91⅛	91⅞	0	-0⅛	9.29
Austria 7½ 94 ECU	100	91⅛	91⅞	+0⅛	+0½	10.27
Barclays Aus. 13½ 91 A$	100	98¼	98¾	+0¼	+0¼	14.58
Bell Canada 10⅞ 04 C$	200	–	–	–	–	–
BP Capital 9¾ 93 £	100	91⅛	91¾	-0⅛	+1⅞	13.47
British Airways 10 98 £	100	84⅝	85⅛	-0⅛	+3⅜	13.20
Brit. Telecom 9½ 93 £	150	†89⅞	90⅝	0	+0⅞	13.95
Comm.Bk.Aust. 12⅝ 93A$	100	†95	95½	0	+0¼	14.69
Comm.Bk.Aus. 13¼ 94 NZ$	60	100¾	101¾	+0¼	+0¼	13.29
Credit Foncier 9 96 Ecu	100	93½	94	+0¼	+0⅝	10.42
CreditFoncier 9⅜ 99Ecu	150	93½	94	+0¼	+0½	10.36
CrLocalFran. 10¼ 95 Ecu	225	99	99½	+0⅛	+0⅝	10.43
Deut.Bk.Aus. 13⅝ 93 A$	125	98⅛	98¾	+0⅛	+0½	13.86
Deutsche Bk.Fin. 15 94 A$	100	102⅞	103⅜	+0⅛	+0⅝	13.89
Elec.De France 9¾ 99C$	150	–	–	–	–	–
E.I.B. 7 96 LFr	100	†90½	91½	-1	-0⅝	9.08
E.I.B. 7⅛ 99 FL	150	88⅛	88⅝	0	-0¼	9.02
E.I.B. 9 99 Ecu	150	†93⅝	94⅛	+0¼	+2⅜	10.07
E.I.B. 10 97 Ecu	800	98⅛	98½	+0¼	+0½	10.35
Eurofima 7⅝ 94 Ecu	100	92⅞	93¼	+0¼	+1⅛	9.96
Fed.Bus.Dv.Bk.9¾ 92 C$	75	–	–	–	–	–
Ford Cr.Can.10¼ 93 C$	100	–	–	–	–	–
Ford Cred.Can.10⅞ 96C$	125	–	–	–	–	–
Ford Cred.Fund.10¼ 93£	60	91⅞	92⅜	-0½	+1⅜	13.68
G.M.A.C.Canada 11 3/4 94C$	100	–	–	–	–	–
Heineken 7⅝ 94 FL	150	95¼	96¼	0	0	8.11
Hydro-Quebec 11 99 C$	400	–	–	–	–	–
Lloyds Bank 10¼ 98 £	150	85⅝	85¾	-0½	+3	13.33
Lloyds Bank 11⅝ 98 £	100	89	89¾	+0¼	+2⅞	13.51
Nat. Aus. Bk. 14¼ 94A$	100	99⅝	99⅞	+0⅛	+0¼	14.82
New Zealand 9½ 93 £	100	90¼	90¾	-0½	+1⅜	13.63
O.E.K.B. 10¼ 99 C$	150	–	–	–	–	–
Royal Bk.Scot.10⅝ 98 £	125	87⅛	87⅞	-0¼	+3⅛	13.29
Saskatchewan 10¼ 93 C$	200	–	–	–	–	–
State Bk.NSW. 13⅞ 93A$	100	98¼	98¾	+0⅛	+0¼	14.36
Sweden 7½ 93 Ecu	250	92⅞	93¼	+0⅛	+0½	9.94
Sweden 15 94 A$	100	102¼	102¾	0	+0¼	14.06
Toyota Mtr.Cr.10⅝ 94C$	150	–	–	–	–	–
Toyota Mtr.Cr.11⅝ 92C$	150	–	–	–	–	–
World Bank 7⅛ 99 FL	300	88⅛	88⅝	0	+0⅛	9.06
World Bank 9½ 95 Ecu	100	97⅛	97⅝	+0⅛	+0⅝	10.21
World Bank 10⅞ 94 £	200	93¼	93½	-0⅛	+2⅞	13.01
World Bank 13⅜ 92 A$	100	98¼	98½	-0⅛	0	14.30
World Bank 14¼ 94 A$	75	99	99½	0	+0½	14.44
Zentrspk. 13¼ 93 A$	75	†98¼	99¼	0	+0¼	13.66

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.85	99.90	24/07	15.33
Belgium 91 US$	0	100.00	100.10	21/08	8.32
Chelt.& Gloucester 94 £	.063	99.76	99.81	31/05	15¼
Credit Foncier 98 US$	.063	99.61	99.71	20/10	8.44
Dresdner Finance 99 DM	†.031	100.18	100.28	30/07	8.81
EEC 3 92 DM	†0	100.48	100.58	21/08	9
Halifax BS 94 £	.1	100.02	100.07	9/08	15.35
Invt. In Industry 94 £	0⅛	99.94	100.04	17/07	15.37
Leeds Perm. B/S. 94 £	0⅛	100.07	100.12	17/07	15.37
Milk Mkt. Brd. 5 93 £	0⅛	99.89	99.94	29/06	15.31
New Zealand 5 97 £	.07	99.95	100.05	22/08	15.06
Northern Rock 92 £	0½	99.85	99.90	30/07	15.44
State Bk. New. 98 US$	.188	99.58	99.83	14/08	8.56
Woolwich Equit.BS. 93 £	0⅛	100.02	100.07	17/07	15.37
Woolwich 5 95 £	0⅛	99.93	99.98	22/08	15.12

Average price change... On day 0.00 on week -0.01

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US$	10/87	62.	111⅛	112⅛	+0⅛	3.06
Amer. Brands 5¾ 05 US$	4/90	79.	100⅜	101⅛	0	-15.70
Asda 4¼ 02 £	3/87	1.64	103⅞	104⅜	+0¼	57.74
Bank of Tokyo 3⅞ 04 US$	3/89	1772.	71⅝	72⅝	+1¼	6.18
CBS. Inc. 5 02 US$	4/87	200.	104⅜	105⅜	+0½	5.61
Dai-Ichi Kan. 3⅞ 04 US$	†7/89	3486.	73½	74½	+0½	12.71
Daiwa Bank 3¼ 95 US$	2/90	1628.	92⅞	93⅞	+0⅜	2.71
Primerica 5½ 02 US$	4/87	66.75	74¼	75¼	+0⅛	53.53
Eng.China Clay 6½ 03 £	9/88	4.8	81⅜	82⅜	+0⅜	4.24
G.N.K. 7½ 2000 US$	2/90	1.37	80½	81½	0	91.33
Ladbroke Grp. 5⅛ 04 £	6/89	3.55	99	100	+1½	12.49
Land Secs. 6¾ 02 £	6/87	6.72	80¾	81¾	+0¼	9.79
Minolta Camera 2¼ 94DM	2/86	1004.	95¼	96¼	+0¼	10.17
MCA Inc 5½ 02 US$	†9/87	69.62	95½	96½	+0½	11.16
Mitsubishi Bk. 3½ 04US$	5/89	3266.	77	78	+1¼	17.04
Next Plc 5¾ 03 £	11/87	4.3	96½	97½	0	479.91
Omnicom Inc. 6 1/2% 04 US$	7/89	28.	105¼	106¼	0	16.07
Ranks Hovis 4¾ 03 £	1/88	3.5	105½	106½	-⅝	-6.67
Redland 7¼ 02 £	1/87	5.4	108⅛	109⅛	+1⅛	0.10
Saatchi&Saatchi 6¾ 03 £	†10/89	4.41	64	65	0	187.32
Sanwa Bank 1¼ 02 US$	10/87	2767.	81	83	+1½	4.65
Sumitomo Bank 3¾ 04 US$	2/89	3897.	69⅝	70⅝	-0¼	18.51
Texas Inst. 2¾ 02 US$	9/87	82.87	77⅛	78¼	0	56.21
Utd.N'papers 8 04 £	10/89	8.77	132	133	+0½	257.34
W.R. Grace 6¼ 02 US$	9/87	42.12	83½	84½	-0¼	26.19

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Gilts hit by worse than expected trade figures

By Deborah Hargreaves in London and Janet Bush in New York

PRICES OF gilt-edged securities took a buffeting yesterday when the UK trade deficit figure for April turned out to have narrowed less than the market expected. It was concerned that the reduction in the deficit was accounted for by an increase in the surplus on oil and a turnround in the figure for erratics.

The shock of the figures sent gilts reeling by 20 ticks after the announcement, but the market later recovered slightly to close modestly lower. A benchmark 11¾ per cent bond due in 2003/07 closed at 100⁹⁄₁₆ offering a yield of 11.68 per cent after opening at 101⅛.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	94-00	-07/32	12.52	13.27	13.62
		10.500	5/99	91-23	-12/32	12.03	12.52	12.82
		9.000	10/08	83-23	-20/32	11.08	11.35	11.70
US TREASURY *		8.875	05/00	101-17	+03/32	8.64	8.69	8.85
		8.500	02/20	98-15	+04/32	8.64	8.68	8.94
JAPAN	No 119	4.800	6/99	87.3967	-0.216	7.08	7.00	7.32
	No 2	5.700	3/07	91.0603	+0.072	6.84	6.92	7.12
GERMANY		7.750	02/00	93.5500	-	8.74	8.67	8.79
FRANCE	BTAN	9.000	02/95	96.5136	+0.072	9.93	9.98	10.14
	OAT	8.500	03/00	93.3700	+0.200	9.56	9.54	9.73
CANADA *		9.750	05/00	91.6000	+0.125	11.19	10.91	11.72
NETHERLANDS		7.750	01/00	92.3100	+0.070	8.96	8.97	8.98
AUSTRALIA		12.000	7/99	92.1907	+0.002	13.60	13.63	13.70

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

■ THE JAPANESE market reacted well to the auction of Y900bn of bonds as investors scrambled to buy the bonds which are expected to become a new benchmark. They pay a coupon of 6.4 per cent and by September will be merged into an existing issue of Y600bn bonds in a benchmark that will rival the current 119 bond.

The 119 bond is currently locked in a trading range since if its price drops lower, traders will be able to make a profitable arbitrage between the cash bonds and the futures contract by buying the bonds. The Bank of Japan also indicated it does not want long-term interest rates below 7 per cent which limits upward movement in the bond price.

GOVERNMENT BONDS

■ THE BANK of Italy yesterday announced the terms of a new seven-year fixed-rate bond creating the longest ever maturity in the Italian government market. The L1,500bn bond should become a benchmark if the bank uses its prerogative to tap the issue at a later date.

The bond which offers a real yield of 12.5 per cent, is likely to attract foreign investors since they have been looking for longer maturity issues. The longest fixed-rate maturity offered in the Italian market was previously 4 years.

■ US TREASURY bonds were quoted marginally higher at midsession yesterday, deriving very little benefit from a fall of 4.1 per cent in US durable goods orders in April.

The Treasury's benchmark long bond was quoted ⅛ point higher for a yield of 8.598 per cent. Some medium-dated issues stood as much as ⅛ point higher.

The outperformance in the medium-dated area of the yield curve was attributed to buying by Middle Eastern investors amid reports that they were selling gold and using the proceeds to invest in Treasuries.

Outside this particular focus of interest, the market rallied just after the durable goods orders release, which provided more evidence of economic weakness and compared with consensus estimates of a drop of between 2 per cent and 3 per cent, but then dipped back again.

Banks offer $2.7bn for Pechiney financing

By Stephen Fidler, Euromarkets Correspondent

BANKERS arranging a $680m project financing for Pechiney of France to build an aluminium smelter in Dunkirk said yesterday they had received more than $2.7bn in commitments from international banks.

The financing, being arranged by Chase Investment Bank and Crédit Lyonnais, is to build a plant capable of producing 215,000 tonnes a year, with a total cost of FFr6.3bn ($1.1bn). Pechiney will have a 35 per cent stake in Aluminium Dunkerque. The rest of the shares have been privately placed by institutions led by Banque Nationale de Paris, Banque Indosuez and Goldman Sachs with French, European and US investors.

Equity and quasi equity, including subordinated advances from Pechiney and Electricité de France, will total FFr2.4bn. In an innovative arrangement, the French state electricity concern will provide electricity for the smelter for 25 years, in return for a participation in profits.

The arrangers said 48 banks, all with previous relationships with Pechiney, agreed to commit at least $30m each to the project. Their commitments will be scaled down.

With the sharp fall-off in syndicated lending this year, largely due to the end of the leveraged buy-out boom, many banks have become more wary of lending. Arranging banks often fail to meet targets when syndicating loans.

But the oversubscription of this loan reflects the willingness of banks to please important corporate customers, and a growth of interest in what banks see as conservatively-structured project financings.

The financing is expected to mature in March 2001, although it may be extended for four more years. Principal repayments will start in March 1993. The interest rate margin is ⅝ percentage point over interbank rates, potentially rising to ¾ point, depending on outstanding amounts after the project is completed in 1992.

Italian debt market enters new era

Haig Simonian discovers foreign investors turning to lire bonds

May 1990 could go down as the point when the Italian debt market shifted from being an illiquid, idiosyncratic muddle into a professional and internationally-attractive investment pool on a par with its UK, West German and French neighbours.

Recent weeks have brought to a head months of gradual, but largely unnoticed, change. Even last weekend's one percentage point cut in the Bank of Italy's discount rate to 12.5 per cent has been taken in its stride by the market.

In May alone:

● The select group of 19 primary dealers in Italian government bonds was joined by J.P. Morgan, the first foreigner.

● The London International Financial Futures Exchange admitted plans to launch the first futures contracts on Italian government bonds and Eurolire deposits.

● The Italian Treasury's regular monthly bond auction was oversubscribed 91½ times.

● The central bank dropped its traditional fixed-price underwriting system for floating-rate paper in favour of auctions based on price.

● The Treasury yesterday announced an issue of seven-year bonds – the longest maturity it has offered on fixed-rate securities.

Before investors rush to their phones, some obstacles to a smoothly functioning lire debt and deposit market should be borne in mind.

Reimbursement of withholding tax on government paper remains notoriously slow and some form of international clearing mechanism is required for Italian domestic paper, along with a bridge with the existing domestic system.

Withholding tax on interbank deposits must be abolished to create greater depth and transparency between the domestic interbank and the Eurolire market.

The voracious spending appetite of successive governments makes Italy's debt market the third biggest in the world. Swollen by the relatively short maturity of much government debt, L87,200bn ($71.3bn) of bonds were issued last year, comprising L16,200bn in rolled-over borrowings and L71,000bn in net new issues.

Finding takers, coupled with the desire to keep inflation down, has dictated a tight money policy which saw yields on four-year Italian benchmark bonds (BTPs) hitting 14.69 per cent last year.

With 6.2 per cent inflation in 1989, that offered appealing real returns and even after this weekend's interest rate cut, there remains a spread of more than 525 basis points between the 14 per cent on BTPs and the 8¾ per cent on longer maturity 10-year Bunds.

The growing stability of the lire has lent much credibility to the market. No more so than after last January's move to restrict the lire to the narrow plus or minus 2.25 per cent European Monetary System band. With the gradual removal of exchange controls, the decision has boosted the currency's value.

The lire grew even firmer after the removal of the remaining shackles to the free transfer of capital on May 14. Rather than plummeting, it surged to the upper end of its band against the French franc, and also showed great strength against the D-Mark. Even last weekend's rate cut has not dented confidence, with the need for renewed intervention to keep the lire within its ceiling against the French franc.

While the underlying problem of government overspending remains unresolved, confidence in economic management has increased. Last week's plan to bring this year's deficit back in line with the new L135,600bn target via L6,700bn of spending cuts and L5,050bn of new revenue has been well received.

The latest measures may not be enough to convince the sceptics, but more economists are now willing to give the Government the benefit of the doubt.

Nowhere has that been more evident than in the primary and secondary government bond markets. With a current daily average volume of $1bn on the regulated screen market – an estimated 25 per cent of overall market volume – secondary market turnover has more than quadrupled since the start of 1989, and more than doubled since the end of the year, according to J.P. Morgan. Mr Hendrik van Riel, the bank's Milan head, talks of a marked shift to "greater liquidity and greater transparency."

The biggest growth has been on the fixed income side, where volume has increased 10 times since the start of 1989, largely thanks to the Bank of Italy's introduction of more benchmark-type tap issues, increasing size and thereby liquidity. And although fixed-rate paper still only accounts for about 20 per cent of Italy's outstanding domestic government debt, it now logs up about 50 per cent of daily turnover.

Recent experience in the primary market has confirmed the bullish trend. In early April, banks were only given 65 per cent of their bids for the L8,000bn of new floating-rate paper on offer. By mid-month, there were bids of no less than L66,000bn for just L2,000bn of paper.

In response, the Bank of Italy introduced an option to raise issue size by 50 per cent. Undaunted, the banks bid a stunning L366,000bn for the L4,000bn issue at the beginning of this month, leading to a 1.6 per cent allocation rate after the option to increase the issue was exercised.

Two further changes have since been introduced by the central bank to dampen demand. Issue sizes will now be doubled if necessary, and last week's issue of L3,000bn of new paper marked the first time so much net new money had been sought at mid-month, rather than at the regular redemption and new issue rounds held at the beginning of each month.

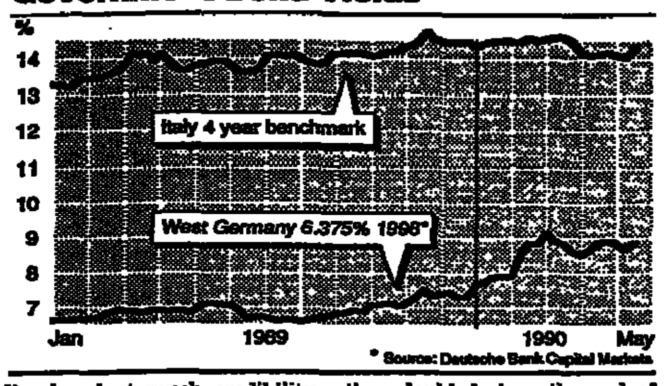
Cooled by anxiety over the effect of the potential 100 per cent increase option on overnight liquidity and by falling grey market prices, bids of only L7,500bn were made. But that was still well ahead of the doubled L6,000bn issue size. More important, the continuing demand has prompted the central bank to sell all new floating-rate issues by an auction system as of next month – in another sign of the market's continuing evolution.

The surge in demand reflects rising investor interest both domestically and from abroad. Two years ago "we had very few active foreign accounts," says Mr Montano Nissotti, one of J.P. Morgan's three Italian government bond traders. By contrast, the bank now claims to deal regularly with institutional buyers in both Europe, the Far East and even the US.

That interest may tempt more banks to join the primary dealers club, which makes markets in the 35 different bonds and 10 bills comprising the screen-based regulated market introduced by the Bank of Italy in May 1988. Apart from Banca di Salento, an Italian regional bank whose candidature may already have been once turned down, Banca d'America e d'Italia, the Deutsche Bank subsidiary, is imminently about to join. And among the most active foreign houses in the secondary market is Morgan Stanley in London.

The growing interest on the part of prestigious foreign houses is a telling sign of greater confidence in Italian debt. Combined with additional regulatory changes and the introduction of futures contracts, it could spell the beginning of a new era for Italian finance and a widening of horizons for international investors.

Government Bond Yields



* Source: Deutsche Bank Capital Markets

Finland moves to lift exchange controls

By Enrique Tessieri in Helsinki

THE BANK of Finland yesterday announced further steps to lift foreign exchange controls from July 1.

Private individuals – as well as housing and real estate companies – can invest unlimited sums abroad without permission from the Bank of Finland. Currently, individuals are allowed to invest FM1m for the purchase of real estate and FM300,000 in portfolio investments outside Finland.

Finnish municipalities can now get credit from foreign banks without permission. Mortgage banks and credit companies will also be able to give foreigners loans and will not need permission to invest outside Finland if they fulfil existing requirements.

Mr Kaarlo Jannari, of the Bank of Finland, felt "the economy was still too overheated" to allow private individuals to get loans from foreign banks. However, he said further steps will be taken to lift exchange controls. He admitted Finland had been slower than other Scandinavian countries in lifting exchange controls.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue May 22 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Mon May 21 Index No.	Fri May 18 Index No.	Thu May 17 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (199)	878.99	+1.3	13.20	5.15	9.17	15.78	867.52	860.37	861.18	978.40
2 Building Materials (27)	1100.42	+2.0	14.34	5.40	8.62	21.22	1078.44	1066.99	1069.52	1247.53
3 Contracting, Construction (36)	1364.90	+1.2	17.60	6.01	7.41	33.20	1349.29	1350.19	1349.58	1717.56
4 Electricals (10)	2511.17	+2.2	11.33	5.34	10.86	61.43	2456.10	2441.56	2431.94	2846.29
5 Electronics (29)	1872.87	-0.1	9.70	3.96	13.35	19.33	1874.64	1870.23	1891.05	2227.45
6 Engineering-Aerospace (8)	473.47	+2.3	13.75	4.92	8.68	9.31	462.70	450.39	452.68	0.00
7 Engineering-General (43)	477.04	+2.1	11.96	5.25	10.10	8.17	467.16	464.67	462.78	0.00
8 Metals and Metal Forming (6)	488.70	+1.4	24.04	6.38	4.69	0.53	481.86	480.03	486.67	533.39
9 Motors (16)	347.20	+1.8	15.87	6.49	7.35	9.56	341.13	339.63	338.78	324.01
10 Other Industrial Materials (24)	1604.60	+1.0	11.05	4.97	10.45	33.09	1588.52	1568.75	1556.98	1626.04
21 CONSUMER GROUP (178)	1270.78	+1.1	9.49	3.93	13.05	12.56	1256.89	1243.70	1247.68	1220.40
22 Brewers and Distillers (21)	1505.32	+1.4	9.95	3.81	12.18	12.62	1484.07	1473.10	1474.71	1303.96
25 Food Manufacturing (20)	1086.42	+0.7	10.37	4.34	11.92	16.98	1078.47	1075.05	1075.66	1071.81
26 Food Retailing (16)	2419.20	+1.1	9.39	3.35	13.68	22.97	2391.96	2364.54	2356.77	2231.48
27 Health and Household (14)	2631.59	+1.3	6.57	2.65	18.13	20.36	2597.71	2549.82	2553.62	2298.70
29 Leisure (32)	1409.95	+0.5	10.23	4.32	11.92	18.28	1403.42	1394.80	1405.55	1649.21
31 Packaging & Paper (12)	576.52	+0.8	12.73	5.88	10.04	11.83	571.91	571.46	572.25	573.70
32 Publishing & Printing (16)	3346.87	+1.1	10.01	5.36	12.59	50.81	3311.54	3308.22	3319.67	3568.69
34 Stores (35)	785.14	+1.0	11.39	4.81	11.32	2.25	777.08	765.22	776.47	808.40
35 Textiles (12)	492.65	+2.6	13.14	7.26	9.68	13.26	480.31	473.02	467.42	536.02
40 OTHER GROUPS (105)	1149.82	+0.9	11.18	4.99	10.74	10.37	1139.35	1135.78	1140.64	1115.99
41 Agencies (17)	1593.18	+1.0	6.25	2.48	19.31	14.99	1577.28	1590.86	1614.47	1406.93
42 Chemicals (23)	1256.36	+1.1	11.30	5.26	10.35	28.52	1242.30	1229.09	1232.98	1277.91
43 Conglomerates (14)	1624.44	+0.8	10.38	6.09	11.58	14.41	1611.55	1609.36	1606.32	1596.31
44 Transport (13)	2231.09	+0.8	11.23	4.49	11.25	26.91	2212.38	2211.24	2198.41	2455.68
46 Telephone Networks (2)	1160.00	+1.2	10.95	4.42	11.88	0.00	1146.37	1141.36	1154.90	1153.44
47 Water (10)	1955.71	+1.0	17.82	6.92	6.22	0.00	1936.07	1924.66	1930.77	0.00
48 Miscellaneous (26)	1732.59	+0.4	11.99	4.90	9.52	18.70	1725.21	1721.88	1728.83	1516.65
49 INDUSTRIAL GROUP (482)	1148.54	+1.1	10.93	4.56	11.14	13.32	1136.04	1127.38	1130.75	1150.72
51 Oil & Gas (18)	2314.48	+2.3	11.72	5.25	11.26	46.43	2263.27	2282.10	2320.72	2016.85
59 500 SHARE INDEX (500)	1245.98	+1.3	11.04	4.66	11.16	15.95	1230.45	1223.79	1229.85	1224.65
61 FINANCIAL GROUP (109)	795.99	+1.6	–	5.76	–	18.66	783.27	780.94	784.50	744.94
62 Banks (9)	847.58	+1.6	19.37	6.34	6.76	25.62	834.50	830.28	837.58	744.13
65 Insurance (Life) (7)	1377.24	+2.5	–	5.33	–	36.94	1344.20	1331.04	1335.52	1056.98
66 Insurance (Composite) (7)	676.60	+1.3	–	6.11	–	19.43	667.89	662.68	664.32	585.29
67 Insurance (Brokers) (7)	1067.54	+1.2	8.10	6.10	16.26	27.41	1054.62	1061.97	1062.89	989.92
68 Merchant Banks (7)	439.53	+1.6	–	4.33	–	4.85	432.50	434.10	432.44	330.37
69 Property (47)	1086.01	+1.4	8.15	4.20	15.71	8.35	1070.57	1078.26	1083.02	1318.96
70 Other Financial (25)	310.67	+2.0	14.35	7.19	9.13	4.54	304.55	304.05	301.93	374.79
71 Investment Trusts (67)	1199.85	+1.3	–	3.23	–	10.73	1184.32	1185.63	1187.03	1157.26
91 Overseas Traders (5)	1366.04	+2.5	9.03	6.69	13.57	42.87	1332.71	1318.57	1320.35	1377.38
99 ALL-SHARE INDEX (681)	1137.50	+1.3	–	4.79	–	16.34	1122.64	1117.16	1122.46	1106.73

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	May 21	May 18	May 17	May 16	May 15	Year ago
FT-SE 100 SHARE INDEX‡	2311.3	+29.2	2332.7	2293.3	2282.1	2269.1	2284.4	2221.1	2212.2	2151.6

FIXED INTEREST

PRICE INDICES	Tue May 22	Day's change %	Mon May 21	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	115.66	+0.03	115.63	–	4.71
2 5-15 years	121.34	-0.09	121.45	–	4.96
3 Over 15 years	125.31	....	125.30	–	4.77
4 Irredeemables	142.14	-0.42	142.73	–	6.12
5 All stocks	121.57	-0.04	121.62	–	4.91
Index-Linked					
6 Up to 5 years	144.92	+0.04	144.85	–	1.49
7 Over 5 years	138.54	+0.11	138.40	–	1.38
8 All stocks	138.91	+0.10	138.77	–	1.38
9 Debentures & Loans	97.93	+0.08	97.85	–	3.92
10 Preference	73.84	+0.05	73.80	–	2.52

AVERAGE GROSS REDEMPTION YIELDS		Tue May 22	Mon May 21	Year ago (approx.)
British Government				
1 Low	5 years	11.21	11.20	9.66
2 Coupons	15 years	10.82	10.80	9.32
3	25 years	10.72	10.69	9.15
4 Medium	5 years	12.17	12.14	10.94
5 Coupons	15 years	11.33	11.31	9.78
6	25 years	10.94	10.91	9.32
7 High	5 years	12.29	12.27	11.04
8 Coupons	15 years	11.60	11.59	9.99
9	25 years	11.21	11.19	9.48
10 Irredeemables†		10.76	10.71	9.15
Index-Linked				
11 Inflation rate 5%	Up to 5yrs.	5.15	5.15	3.82
12 Inflation rate 5%	Over 5 yrs.	4.12	4.12	3.68
13 Inflation rate 10%	Up to 5 yrs.	4.06	4.06	3.04
14 Inflation rate 10%	Over 5 yrs.	3.93	3.94	3.50
15 Debs &	5 years	14.78	14.80	11.85
16 Loans	15 years	13.47	13.48	11.51
17	25 years	13.07	13.08	11.16
18 Preference†		12.53	12.54	10.19

‡Opening index 2303.9; 9 am 2294.6; 10 am 2300.6; 11 am 2316.2; Noon 2318.0; 1 pm 2324.2; 2 pm 2329.4; 3 pm 2325.8; 4 pm 2316.2; 4.10 pm 2311.9; (a) 1.30pm (b) 9.29am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p. Technical problems make it impossible to publish May 23 indices for this edition.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	4	86	8
Corporations, Dominion and Foreign Bonds	0	7	17
Industrials	441	340	801
Financial and Properties	173	187	379
Oils	16	30	43
Plantations	2	0	8
Mines	34	41	90
Others	49	90	109
Totals	719	781	1,455

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price	+or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price £	+or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price p	+or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¥ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. * Third Market. B Units comprising 11 new ord. & 2 warrants. ♦ Issued in connection with reorganisation, merger or takeover.

TRADITIONAL OPTIONS

- First Dealings May 21
- Last Dealings June 1
- Last Declarations Aug. 16
- For settlement Aug. 28

For rate indications see end of London Share Service

Calls: Bimec, Christies Int., Control Secs., Eurotunnel Wts., Grootvlei, Lynx, Rockware, Oliver Res., Saatchi & Saatchi, Time Products.

LONDON TRADED OPTIONS

THE FUTURES market demonstrated its ability to determine the direction of London equities yesterday as it led the stock market first higher and then lower in another hectic session on the London International Financial Futures Exchange.

Meanwhile, the traded options market turned in another strong performance, as nearly 60,000 contracts changed hands, more than double the level prevailing for most of this year.

The June FT-SE 100 index futures contract traded for large parts of the day around 20 to 25 points above the cash market, indicating futures dealers' belief that by the end of June, the FT-SE index will be 20 to 25 points higher. However, the futures' premium over the cash was less than in previous sessions, suggesting some nervousness creeping into the market.

Analysts said that once a calculation for dividend payments and cost of finance were taken into consideration, the June futures contract should stand around 23-25 points above the cash index. So yesterday's closing premium of 22 points stood at a small discount to fair value.

In spite of some dealers' nervousness, UK institutions continued to buy futures. Another sign of the growing importance of the futures market was the increased number of traders in the FT-SE futures pit on Liffe, attracted by its increased liquidity.

Some dealers also said that a number of investors had begun to trade the FT-SE futures rather than FT-SE options, also because of the former's greater turnover.

At the close, June was at 2,344, down 33 points on the day. Turnover was a heavy 9,390 contracts. In the options market, the expiry of the May equities boosted trading. British Telecom was the busiest stock, trading 5,109 contracts, with the May 280 calls the busiest, on 1,398 lots.

Expiry trade also lifted Dixons, although the blocking of the bid by Kingfisher lifted volume.

Total options turnover stood at 58,353 contracts, divided between the 39,481 calls and 18,872 puts.

Option		Calls			Puts		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK COMPANY NEWS

Overcapacity forces reduction in acrylic fibres side

Courtaulds ahead of expectations with £168m

By Peter Marsh

COURTAULDS, the chemicals and materials company which is western Europe's second biggest maker of acrylic fibres, said yesterday it was planning to reduce its operations in these fibres as a result of the overcapacity in the industry.

Sir Christopher Hogg, chairman, announced this in unveiling pre-tax profits for the year to March 31 of £168.1m, slightly above expectations.

The results were the first for the "new" Courtaulds since the company announced its demerger last October. That led to the splitting off of the company's textiles operations, which now trades as a separate business.

Sir Christopher said he could not elaborate on the planned reduction in the company's acrylics activities. Analysts said they assumed he was talking about either selling some manufacturing operations, closing them down or putting them into a joint venture.

Courtaulds has acrylics plants in the UK, France and Spain. They have a capacity to make about 200,000 tonnes a year of the fibre, about 20 per cent of west European capacity.

Courtaulds has recently made a loss on its acrylics operations as have Enimont of Italy, western Europe's largest acrylics producer, and West Germany's Bayer, the third biggest.

Sir Christopher said that following the demerger Courtaulds was in a healthy state with benefits starting to show through.

All parts of the business had performed well with the exception of acrylics and cellulose-based films.

The notional pre-tax profit for the "new" Courtaulds in 1989 was £159.9m. The company's sales for 1990 were £1.9bn, compared with £1.65bn last time. Earnings per share rose by 13 per cent to 32p from 28.4p.

Lydia van der Meer

Sir Christopher Hogg, chairman (centre), with Sipko Huismans, managing director (left) and Richard Lapthorne, finance director

Courtaulds is recommending a final dividend of 8p, making a total for the year of 11.1p.

Profits were helped by a gain of £23m arising from a surplus in pension funds. Courtaulds is likely to see similar gains over the next decade as a result of further surpluses.

Operating profits for the company's different divisions were: coatings £53m (£43m); performance materials £13m (£4m); packaging £18m (£10m); industrial chemicals £37m (£32m); fibres and films £47m (£40m).

Courtaulds also announced yesterday it was to spend £47m in extending its rayon manufacturing operations at an existing cellulose-fibre plant in Mobile, Alabama.

● COMMENT

Courtaulds appears to have got off to a reasonable start in its new guise as a speciality chemicals company. Analysts are, however, justifiably suspicious of organisations which put themselves in this category. What matters is not how special the various products appear to be, but the shape of the markets in which such companies operate and whether they have the management and technology resources to deliver. Courtaulds appears, on the face of it, to be in a strong position in fields such as industrial and marine paints, tube-based packaging and some areas of industrial chemicals. There are question marks, meanwhile, over where the company is going in composites and other so-called performance materials. Hoped-for expansion in these fields in aerospace and defence may be hit, for example, by the post-Gorbachevian disinclination by many of the developed world's armed forces to continue their weapons build-up. And it is still unclear about the extent to which even the best-organised speciality chemicals companies can escape the consequences of the downturn affecting many areas of commodity chemicals. Analysts are predicting pre-tax profits for 1991 of about £190m, putting the company on a p/e of roughly 9.5.

Chain reaction leads to lower prices

Nikki Tait reports on the conclusions of the MMC on the Dixons/Kingfisher merger

IN EXAMINING the proposed link-up between Kingfisher and Dixons, the report of six-man team at the Monopolies and Mergers Commission,* concentrated on the UK retail market for electrical appliances.

This, it concluded, is worth about £6bn a year, with Dixons/Currys being the single largest retailer and Kingfisher's Comet subsidiary falling into second place.

In considering the matter of market shares, the MMC inquiry looked first at the general UK retail market, noting the rapid rate of change in recent years, with continued growth in the importance of large multiple retailers.

Turning to the electrical goods sector specifically, it found that specialist electrical retailers accounted for about 67 per cent of major kitchen appliance sales and 72 per cent of domestic electronic goods – although only a modest 29 per cent of small domestic appliances.

Within this specialist retail sector, the MMC suggested market shares could be broken down further into major multiples (31 per cent of all such consumer purchases in 1989); other multiples (2 per cent); hi-fi specialists (6 per cent); other independents (14 per cent); electricity showrooms (13 per cent) and rental outlets (1 per cent).

That 31 per cent share taken by the major multiples, the MMC said, had grown from about 25 per cent in 1985, and all three national multiples – Dixons, Comet (plus Lasky's, also owned by Kingfisher), and Rumbelows – had shared in the advance.

For the two companies in question, the MMC found that Dixons' market share was just under 17 per cent and Comet/Lasky's just over 9 per cent. Together, their market share would be some 26 per cent.

This calculation, the MMC conceded, utilised a "narrow definition" of the market – excluding, for example, gas cookers, power tools, garden appliances and so on.

On a wider definition, which excluded sales of most business electronic goods, the combined share would have been about 21 per cent. However, the inquiry decided not to rule on the precise market share post-merger, believing it sufficient to assume that this would be in the 21-26 per cent range.

The MMC team then looked carefully at the pricing of electrical goods, plus the manner in which the two companies advertised and promoted their products.

It was faced with two very different submissions from the protagonists. Kingfisher argued that price was a major factor in determining a consumer's choice of outlet, and most buyers "shopped around" locally before making purchasing decisions. Given this price sensitivity among customers, it claimed that a merged company could not raise prices nationally or locally without losing substantial market share.

Dixons, on the other hand, claimed that big national multiples had a major effect on the level of retail prices, with Comet reacting to Dixons' prices and vice versa. It provided various examples, such as pricing of VCRs in late 1987, to back up its case.

Competitors, Dixons argued, would be only too happy to follow a merged company's pricing levels upwards, thereby boosting margins. It pointed to the lower level of prices in the UK compared with Europe, suggesting that these were due to competition between the *major multiples*.

The inquiry came down fairly firmly on Dixons' side. "We have concluded that, notwithstanding the significance of local competition, the combined existence of national chains, national price structures and after-sales service organisations and national advertising, has this important consequence: that the pricing of electrical goods sold at retail in the UK is substantially influenced by the fierce and continuing rivalry and pricing strategies of these two very big retailers," it said.

At the HMSO bookshop in High Holborn customers get a preview of the MMC report on the proposed Kingfisher/Dixon merger

The merger, the MMC decided, would "clearly remove competition between the two market leaders; in our view it would also significantly weaken competition in the retailing of electrical appliances generally."

Having also examined the supply side, the MMC added that some – although not all – of the companies selling into the UK electrical appliance market were "large international companies with well-established brands".

"We do not think that many could resist pressure by the enlarged group to increase retail margins and prices," it concluded. "An enlarged Kingfisher would be able to obtain better terms from manufacturers; in so far as these would be accompanied by less advantageous terms for Kingfisher's remaining competitors, the ability of the merged company to bring about higher levels of margins and prices would be enhanced".

The inquiry looked at any possible compensating benefits, which might arise from the merger. Kingfisher claimed that it could "enhance the consumer appeal" of the Dixons' chains and "re-establish Dixons and Currys as effective competitors for the longer term." Pursued, this argument seemed to rest on promises of better service, better terms for return of goods and the like.

That cut little ice with the MMC. "Overall, we do not accept that an enlarged Kingfisher would set standards for customer service which an independent Dixons cannot or could not match," it said.

"Careful consideration" was then given to possible means of remedying the adverse aspects of the proposed merger. Kingfisher put forward its own suggestion – not disclosed in the report – but got nowhere with the MMC.

The MMC suggested the divestment of Comet, but got nowhere with Kingfisher.

One member of the inquiry team, however, did dissent from the team's general conclusion. Mr Colin Baillieu had no quarrel on the analysis of the market and, in the event of a merger, even conceded: "I am not saying that there may not be instances when a price for a particular product may start a few pounds higher or take a few months longer to fall."

But, his note continued, "I believe they will be the exception. My view is that the dynamic of the British retailing sector will reassert itself, which backed by the fierce competition of the international manufacturers, will ensure that there is no detriment to the public interest."

**Kingfisher plc and Dixons Group plc, a report on the proposed merger. HMSO, £9.10 net.*

REA buys £1.5m fibres stake

By Jane Fuller

REA HOLDINGS, a commodity trader, is buying 75 per cent of Willcox, a City of London merchant dealing in natural fibres, including jute.

The £1.47m price will be met by issuing 551,250 shares at 200p each, to raise about £1.1m, and loan notes amounting to £367,500. The share issue represents about 9 per cent of the current share capital.

REA also announced a 50 per cent increase in pre-tax profit to £1.05m on turnover of £49.54m (£26.86m). Mr Richard Robinow, chairman, said the figures would have been even better had it not been a disappointing year for tea.

Net interest payments rose to £350,000, although the sale of a stake in a plantation company left virtually no gearing.

Earnings rose to 8.4p (6.2p). The interim dividend, in lieu of a final, is 4p (3p).

The group, through its Lewisohn & Marshall subsidiary, deals in such commodities as rubber, latex and jute carpet backing.

Willcox was bought by its management from Harrisons & Crosfield early last year, when it also made £550,000 pre-tax.

Tribble directors set to repurchase business

By Vanessa Houlder

FOUR YEARS after Tribble Harris Li crossed the Atlantic to join the USM, the US directors of the architecture and design services group are set to buy their business back again.

If the transaction is approved by shareholders, the company will be whittled down to Covell Matthews Wheatley Architects, a London-based company bought for £3.5m in October 1987. Following the announcement yesterday, the share price rose 5p to 15p.

Three US directors, Mr Michael Tribble, Mr Gerald Li and Mr Thomas McDuffie intend to buy the US side of the business in return for their shareholdings, which together account for just over a quarter of the 17.1m shares in issue, and the cancellation of loans amounting to $1.4m (£825,000).

Mr Peter Denner, President of THL and chairman of CMWA, said the decision stemmed from a realisation that the company was too small to cope with the corporate overheads of a transatlantic business.

The company, which joined the market in a £14m placing at 112p per share in November 1986, has had a chequered career. In February 1988 it put out a profits warning when it found that the costs of its acquisition policy were not compensated by additional earnings. In 1988, it plunged into loss due to heavy reorganisation costs in the US

The company also announced yesterday that it made pre-tax profits of $1.16m in 1989, compared to a loss of $2.63m. Turnover increased from $21.95m to $24.41m.

Earnings per share were 4.06c (loss 4.94c). A final dividend of 1.6c (3.2c) was proposed, making a total of 3.2c (4.8c) for the year.

Buoyant overseas sales and lower levy lifts Yorkshire TV

By David Owen

STRONG overseas programme sales and a lower Exchequer levy enabled Yorkshire Television, one of the big five ITV contractors, to report a better-than-expected 7 per cent advance in pre-tax profits for the six months to March 31, 1990.

This came in spite of increased programme costs and a marginal decline in advertising revenues. Mr Clive Leach, managing director, said that Yorkshire is considering whether to be part of a consortium to bid for a national radio franchise.

In all, pre-tax profits climbed from £10.38m to £11.08m. Turnover was up 11 per cent at £106.1m (£95.4m), of which advertising's contribution was £70.9m (£71.8m).

Having fallen from 8.93 per cent to 8.51 per cent during the year to end-September 1989, Yorkshire's share of network advertising revenues was about 8.6 per cent in the latest six months.

According to Mr Leach, this share actually reached 8.8 per cent in the period from January to April, as the organisation's new sales regime began to have an impact. He expected Yorkshire to continue "to do a little bit better than the network" for the balance of the year.

Overseas programme sales rose seven-fold to £7.1m. This was thanks to the contributions of Yellowthread Street, a 13-part series, and Till We Meet Again, a major co-production, aided and abetted by the likes of First Tuesday and The New Statesman.

The beneficial treatment of overseas programme sales under the new levy rules effective January 1 was also a factor in cutting Exchequer levy payments from £6.46m to £5.58m. Had the old rules applied throughout the latest six months, Yorkshire's levy charge would have been just £3.5m, Mr Leach said.

Programme costs for the half increased by almost 33 per cent but general staff costs were trimmed from £19.53m to £17.95m, with substantial overtime savings realised as a result of new working practices.

Earnings per share edged up to 19.3p (18.3p). The interim dividend is maintained at 3.3p.

The shares rose 6p to 242p.

● COMMENT

The depressed advertising market and the looming shoot-out for new franchises has made the television sector a no-go area of late for all but the most adventurous investors. This is beginning to change. For one thing, something of an advertising upturn is increasingly foreseen for the fourth quarter. More tangibly, amendments to the Broadcasting Bill placing a greater emphasis on regional programming and quality have made major contractors, including Yorkshire, feel more secure in their seats. This suggests that outsiders wishing to gain access to the sector may choose to buy into existing franchisees rather than competing against them for licences. On this basis, television company stocks may warrant a bid premium. Certainly, the upcoming sale of 56 per cent of Thames TV should provide an insight into the true extent of outside interest. With WH Smith and Pearson already holding more than 40 per cent of the shares, Yorkshire may be less of a target for stake-building than some of its peers. Nonetheless, a prospective p/e of 7.3 is not dear. A good time to buy for those prepared to gamble on the franchise position.

Key group may reject B&C plan

By Richard Waters and David Owen

A KEY group of loan stock holders in British & Commonwealth Holdings, the troubled financial services group, appears close to rejecting the group's survival plan if it cannot squeeze further concessions.

The apparent deadlock on the part of holders of the £220m of unsecured loan stock adds to a growing belief among B&C's creditors that the terms of the survival plan will have to be modified if B&C is to avoid being forced into administration.

"I don't see that there is going to be an easy solution", said one bank with significant amounts on loan to B&C yesterday. "Certainly the proposals are not terribly popular."

The loan stock holders, like other senior creditors, have been offered 75 per cent of their investment together with accrued interest and preference shares representing the remaining 25 per cent.

A group of five life assurance companies representing the holders, and acting through the Association of British Insurers, is understood to have demanded that the preference shares should rank ahead of similar securities being offered to other senior creditors. This would give the holders first call on any funds left over after the first repayment to creditors.

The institutions involved in the negotiations have been careful not to force the issue publicly, although one said: "There is a strong feeling going around that the terms should be changed, although to say that the talks would collapse is perhaps too strong a word at the moment."

Other large loan stock holders still insist that they will force B&C into administration if the terms offered to them are not improved. Holders of 20 per cent, or £44m, of the stock would need to support such a move.

One company, with 5 per cent of the issue, said yesterday: "The unsecured loan stock holders – that is us – are in the best position. They will have to improve the terms for us or there will be a forced sale."

Individuals close to B&C, meanwhile, emphasised that "the purpose of issuing draft proposals was to elicit reactions." "It is understandable that feelings are strong but we do have to go through this process", they said.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Bass	int	9†☆	July 25	7	-	28.2
Bett Bros	int	2.1	July 5	1.85	-	5.8
C'berlin & Hill	fin	4	July 28	3.25*	5.75	*4.5
Conrad Conti	fin	nil	-	2	1	3
Countryside Prop	int	1.41	Sept 6	1.3	-	4
Courtaulds	fin	8	July 30	10.1	11.1	13
Ferry Pickering	int	2.1	July 13	2.1	-	5.2
Isopad Intl	fin	3.85	July 27	3.5	5.5	5
Land Securities	fin	12.25	July 16	10.3	17	14.4
Tribble Harris §	fin	1.6★	-	3.2	3.2	4.8
Perpetual Trust	int	0.8	-	0.8	-	2.5
RHM	int	3.82	July 13	3.82	-	12.74
Trinoco	fin	0.8	July 31	0.8	1.4	1.4
Whessoe	int	1.75	July 6	1.25	-	5
Yorkshire TV	int	3.3	July 6	3.3	-	11.3

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ☆Carries scrip option. ★US cents throughout

BAT disappoints City with £231m for first quarter

By Nikki Tait

WORSE-THAN-expected results from its Eagle Star insurance subsidiary left pretax profits at BAT Industries, the tobacco-based conglomerate, 27 per cent lower in the three months to end-March.

The company, which finally saw the bid threat from Sir James Goldsmith's Hoylake consortium disappear in April, yesterday revealed that it made only £231m in its first quarter, compared with £318m in the same period of 1989.

Comparison is not distorted by BAT's current restructuring programme, which will slim the conglomerate down to two activities via a series of asset sales and demergers.

The first quarter downturn did not stop Mr Pat Sheehy, BAT chairman, sounding a fairly optimistic note for the rest of the year. The profits fall, he said, "comes almost entirely from Eagle Star . . . I expect the group to be able to make solid progress in what is very much a transitional year."

That left City analysts vacillating. Predictions had ranged about the £240m-£270m level, and some modest shading of full-year forecasts seemed to be under way. "I think I'd be knocking off more if Sheehy hadn't been so upbeat," said one. BAT shares fell 8p to 684p.

Details of further costs from the Hoylake battle will not be revealed until the interim stage. The bill had reached £56m at end-1989, but Mr Sheehy said the total would be "well short of £100m".

On the figures, BAT said that Eagle Star had suffered on several counts. Weather-related claims led to underwriting losses of £64m net of reinsurance, although this was mitigated by the £25m provision set up in 1989; there was deterioration on the motor side which, coupled with action taken to strengthen the reserves for financial guarantees, exasperated the underwriting position; and investment performance was hit by lower stockmarkets.

As a result, Eagle Star made a trading loss of £39m, which rose to £48m at the group level, due to differences in the treatment of smoothed investment gains. This compared with £89m profit a year earlier which, BAT stressed, was a strong quarter.

The other financial services businesses fared more happily, with Allied Dunbar making a £27m contribution to trading profit, up nine per cent. Farmers, BAT's Los Angeles-based insurance subsidiary, saw a 13 per cent increase in dollar terms, at £81m. Overall, the trading profit contribution from financial services fell from £203m to £79m.

On the tobacco front, news was better than many analysts had forecast. Trading profit rose from £147m to £165m, with a 20 per cent increase in export sales more than offsetting lower domestic market volumes at Brown & Williamson.

Group operating profit fell to £281m (£404m), at closing exchange rates. Net interest charge was £50m (£86m), and after a higher-than-expected tax charge of 41.1 per cent, earnings per share were 7.93p (12.31p).

Higher interest payments brake Trimoco to £3.8m

By Jane Fuller

THE ACUTE downward pressure on motor distributors' profits showed through in a halving of Trimoco's pre-tax figure for the year to March 31.

With turnover up only 3 per cent to £280.78m (£271.97m), taxable profits fell from £7.51m to £3.81m. The operating profit of £7.96m was more than halved by £4.16m of net interest payments.

Mr Roger Smith, chairman, said interest costs had risen by £2m on top of a £1.1m fall in motor profit and a £600,000 fall in property.

He gave a cautious welcome to the Monopolies and Mergers Commission's inquiry into the price of new cars and the franchised dealership system.

If a combination of this investigation and the single European market reduced car prices, it would be good for business, he said. Dealers' margins on car sales were already too low for them to take the brunt of any cut.

The Dunstable-based group, which has a preponderance of Ford dealerships, plus Vauxhall and Peugeot, made £6.17m operating profit in motors.

Vehicle sales contributed nearly 40 per cent of this profit and virtually all the rest came from servicing, parts and the body shops – tipping the balance slightly away from sales.

Fully diluted earnings per share fell from 3.854p to 2.34p. A final dividend of 0.8p makes an unchanged total of 1.4p.

● COMMENT

It is a measure of the dire state of the motor trade that the reaction to these figures tended to be "not bad considering . . ." Trimoco gained sympathy as an interest rate victim and for its exposure to Ford, dented by the new Vauxhall and Rover models. The assumption is that things will not get much worse. This year's margin damage could be limited by Ford's fight back (aided later by the new Escort) and by the "they can't get any lower" argument. Property may do better: a few deals seem to be in the bag. On this basis, a pre-tax profit of £3.5m seems possible, giving a prospective p/e of nearly 9. It looks expensive, but the net asset backing is 22p per share, fully diluted. With the Jameel family locked into Hartwell, there does not seem much near-term prospect of its 27 per cent stake in Trimoco stoking up the price.

Holiday Inn funding costs lead to sharp increase in borrowings

Bass shy of City estimates with £247m

By Philip Rawstorne

BASS, the UK's leading brewer, yesterday announced interim pre-tax profits of £247m, some 10 per cent higher than last year's £225m.

The results for the 28 weeks to April 14, adjusted to exclude property disposal profits, fell short of market expectations largely due to a substantial increase in interest payments.

The cost of borrowings for the 28 weeks to April 14 was £71m compared to £24m over the same period last year.

Mr Ian Prosser, chairman, said the increase arose from the funding costs of acquiring the Holiday Inn business in North America, the high level of investment in the company's trading operations, and higher interest rates generally.

The debt represents some 65 per cent of shareholders' funds but should be reduced to 60 per cent by the year end, Mr Prosser said.

Profits from the recent £300m sale of Crest Hotels to Trusthouse Forte will be included as an extraordinary item in the full year accounts.

Operating profit expanded to £296m (£233m) on turnover of £2.26bn, 13.3 per cent higher.

Bass breweries raised beer volume sales by 2.5 per cent, increasing market share to about 23.5 per cent, and operating profits by 27 per cent, from £66m to £84m.

Tennent's is now the largest overall beer brand in the UK; Carling Black Label is growing at twice the total rate of the lager market; and Bass leads the take-home market, Mr Prosser said.

Turnover of Bass's managed and tenanted pubs rose 6.9 per cent to £575m, but operating profits jumped 15 per cent to £113m (£98m) as margins improved by 1.4 per cent.

Ian Prosser: trade good in the north and midlands

Mr Prosser confirmed the experience of rival brewers, reporting trade difficult in the south but good in the north and midlands. The poll tax might affect consumer spending during the rest of the year, he cautioned, but pub food sales, up 39 per cent, offered further potential.

Hotels and restaurants, including a seven week contribution from Holiday Inns in North America, increased operating profits by 71 per cent to £57m on turnover 60 per cent higher at £363m.

Coral betting shops had enjoyed "exceptional" first half trading, Mr Prosser said, and soft drinks had shown an unseasonal leap in operating profits from £4m to £9m.

Earnings per share increased from 45.8p to 50.7p, a rise of 10.7 per cent. The interim dividend is raised to 9p, some 29 per cent higher than last year's 7p, but in line with moves to reduce disparity.

Analysts lowered their full year forecasts from about £560m to between £550m and £555m, giving a prospective p/e of 10.5.

See Lex

European chiefs quit Ogilvy & Mather

By Alice Rawsthorn

TWO SENIOR executives of the Ogilvy & Mather advertising agency, part of WPP Group, the world's largest marketing services company, resigned yesterday. WPP's shares closed down 3p at 610p.

Mr Peter Warren, 49, resigned as chairman of O&M Europe after more than 30 years with the agency. He has worked at Ogilvy since leaving school and began his career in the postroom. He said he was leaving to find "fresh challenges".

Mr Hans Lange, 49, vice-chairman of O&M Europe, has resigned after 20 years with Ogilvy to take a senior position at Burda, the West German publishing house.

O&M, the world's sixth largest advertising agency, was bought by WPP a year ago after a bitter bid battle. The agency is an institution in the advertising industry because of its exceptionally strong corporate culture. It is renowned for the long service of its employees and its lengthy relationships with clients, including Ford and American Express.

A few months after the WPP takeover Mr Kenneth Roman resigned as Ogilvy's worldwide chairman. His departure was followed by a series of management changes at O&M's New York agency.

The management of the European network, which provided 40 per cent of Ogilvy's $700m (£414m) gross income last year, has been relatively stable. Mr Warren will be succeeded by Mr Harry Reid, 45, regional director for Asia, who has worked at the agency for 20 years.

Despite the slowdown in the US and UK advertising markets, Ogilvy has performed well recently. The New York agency has just won a $45m account for Eastern Airlines.

James Capel, the London stockbroker, expects O&M to provide £41m of WPP's projected £112m taxable profits this year.

Leucadia launches final attack in battle for Molins

By Andrew Hill

LEUCADIA National Corporation yesterday launched a final assault on Molins as its £88m increased offer for the cigarette machinery manufacturer entered its last week.

The US manufacturing and financial services group published a letter from its accountant, Coopers & Lybrand Deloitte, endorsing Leucadia's claim that its hostile offer fully recognised the value of Molins' substantial pension surpluses.

Molins, in its final defence document, also issued yesterday, said the claims were "baseless", and accused Leucadia of having little understanding of its businesses.

From a base of 34 per cent of Molins' equity, Leucadia now owns 40.1 per cent of the shares and has acceptances for a fraction more. Molins' shares were unchanged yesterday at 275p, matching the offer price.

OFT extension on Globe bid

The office of Fair Trading has given itself an extra 10 days to consider the proposed £1.03bn acquisition of Globe Investment Trust by the British Coal Pension Funds.

The OFT now has up to June 15 to decide whether to refer the bid to the Monopolies and Mergers Commission – although it can ask for a further extension if necessary.

The first close of the funds' offer is May 31.

UK COMPANY NEWS

Eagle Trust issues writ against accountancy firm

By John Thornhill

EAGLE TRUST, the Midlands-based mini-conglomerate, yesterday issued a High Court writ against KPMG Peat Marwick McLintock, the accountancy firm, seeking damages for breach of contract and/or negligence.

The action concerns the auditing of the company's accounts for 1987, which received unqualified approval from Peat Marwick.

No statement of claim has been served against Peat Marwick but Eagle Trust said that the damages sought would be substantial.

Eagle Trust said it intended to establish that had Peat Marwick been more rigorous in auditing its accounts then the company would not have subsequently sustained losses at Eagle Express, the parcels distribution subsidiary, and LaForza, the car company, in 1988 and 1989. These losses have been put at about £40m.

The claim concerns four alleged deficiencies in the 1987 set of accounts:

- A £14.9m "loan" – in fact used for sub-underwriting a rights issue – against which no provision was made.
- A £3.5m overvaluation of a property in Bray.
- A failure to substantiate the ownership of a block of shares in Owners Abroad Group worth £3.2m.
- An irrecoverable £3.3m debt, without provision, relating to the sale of Eagle Trust's holding in Howden Group, the engineering company.

Peat Marwick said yesterday it would contest the writ. "KPMG Peat Marwick McLintock has made it plain to Eagle Trust that the firm denies any liability to Eagle Trust and will defend the proceedings," the firm said.

This latest move by Eagle Trust follows a series of legal actions launched by Mr David James, the company doctor who took over as chairman last year after the Serious Fraud Office moved into investigate alleged fraud at the company under Mr John Ferriday, a previous chairman.

In February, Eagle Trust started legal proceedings against the British broking arm of Swiss Bank Corporation seeking £13.5m in damages.

And a month later, the company issued writs against seven of Eagle Trust's former directors seeking damages for breach of duty and trust.

"If we see a pound out there which will not cost us more than 99p to get back then we will have it," Mr James declared at the time.

Peat Marwick is already facing legal action from another quarter. In January, Ferranti, the electronics company, issued a writ against the accountants seeking £400m in damages for alleged negligence in the auditing of International Signal & Control, the US defence contractor which Ferranti subsequently bought.

- Eagle Trust continued its programme of disposals yesterday by selling Eagle International, an electrical goods distributor, for £506,292 in cash.

Carr's Milling sales

Carr's Milling announced that it had agreed to sell three wholly-owned subsidiaries for a cash consideration and loan repayments of £1.5m to Grampian Country Food Group.

The subsidiaries, North Country Poultry, Vale Royal Hatcheries and Ambassador Frozen Foods, made an aggregate pre-tax loss of £1.2m in the year to end-August 1989.

The proceeds of the disposals will be used to reduce significantly group borrowings.

Whessoe improves by 78% to £2.7m

By Vanessa Houlder

WHESSOE yesterday announced a 78 per cent increase in pre-tax profits from £1.52m to £2.71m for the six months to March 31.

Turnover at the engineering group fell from £27.75m to £22.55m.

The improvement in profits follows last year's review of strategy which resulted in its withdrawal from offshore module construction and the phasing out of heavy engineering fabrication activities. Last year's interim results were blighted by a £1.27m loss by the heavy engineering business.

Mr George Duncan, chairman, said management was making progress on the considerable challenges facing the group. As a result, they were reasonably confident about the results for the second half of the year.

Aiton, the power piping division was helped by an increase in fabrication activity, driven by work from the Pressurised Water Reactor at Sizewell and export orders. However, the company said that it was affected by the continuing uncertainty surrounding the UK electricity supply industry. Overall, the engineering division increased profits from £957,000 to £2.29m on reduced turnover of £16.81m (£23.50m).

The instrumentation and control division produced a fall in profits from £566,000 to *£421,000, primarily because of* the timing of contracts last year, the company said.

Earnings per share increased by 68 per cent from 5.7p to 9.6p. The interim dividend is increased by 40 per cent to 1.75p (1.25p).

Conrad Continental in the red

Conrad Continental, a supplier of fashion accessories and leather garments, fell from a £1.21m profit into a pre-tax loss of £283,000 for 1989.

The loss came after net interest payments of £278,000 (£122,000 receipts) and exceptional costs of £307,000 arising from last November's management changes. Loss per share was 1.2p (5.7p earnings).

No final dividend leaves the 1p interim to compare with the previous year's 3p total.

The acquisition of Charlton Enterprises, if approved, would present a significant opportunity for expansion into major new growth areas.

Weak housing market sees Countryside subside to £4m

By Andrew Taylor, Construction Correspondent

THE COLLAPSE of the housing market is continuing to take its toll on builders in south east England.

Pre-tax profits of Countryside Properties, the Essex-based housebuilder and commercial property developer, more than halved during the six months to March 31.

The slump to £4.01m compared with £11.13m at the same stage last year. Housing profits fell from £9.7m to £5.1m.

Profits from the sale of commercial developments also fell sharply, from £3.9m to £930,000. This was due mainly to the timing of sales although the investment market for commercial property had slowed according to Mr Alan Cherry, chairman.

He said the group had sold 153 homes during the first half, only five fewer than during the corresponding period last year.

Average prices, however, had fallen from £167,000 to £141,000. Selling costs had also risen with the group offering a range of incentives from mortgage subsidies to equity sharing and part exchange deals.

Mr Cherry said the group had reduced its trading programme and currently had only 23 completed new houses and 26 elderly persons homes unsold. In addition it had 34 homes acquired under its part exchange scheme of which 21 were awaiting sales completion.

Group borrowings had increased since the year end partially to fund a planned increase in work in progress on Countryside's Barking town centre redevelopment. As a result gearing approaching 80 per cent at the year end increased to about 110 per cent.

The interim dividend is raised 8.5 per cent to 1.41p, payable from earnings of 7.2p (20.1p) per share.

● COMMENT

There are trying times for housebuilders with no relief, in the form of lower interest rates, in sight. Countryside is squeezed from both sides with high interest rates pushing up the cost of its borrowing and reducing demand for its products – homes, offices, warehouses and shops. Gearing of more than 100 per cent does not help but its exposure to off-balance sheet finance is limited to about £7m compared with group debt of about £68m. The company capitalises interest on its developments but this accounts for only about £10m of work in progress of £134m. Trading conditions, however, are unlikely to improve in the second half while the market for commercial property is expected to worsen. Profits of £8m, assuming the second half matches the first six months, would compare with £20.3m in 1988-89. Investors could buy for recovery but this could be up to 18 months away and some might want to buy one or two other housebuilders first.

Stormgard sells lossmaker for £1.2m

Stormgard, the investment holding company, has announced it is to dispose of the business and certain assets of the lace division of E&A Richards for £1.2m cash.

In the year to end-March 1989 the division incurred a pre-tax loss of £173,000. The net assets to be disposed of are estimated to be £1.2m.

The consideration will be satisfied as to £675,000 at completion with a deferred payment of £300,000 payable on December 31 1990. A further £183,000 is payable in respect of plant and equipment.

NEWS DIGEST

Chamberlin & Hill rises 26%

AN ALL-round improvement helped Chamberlin & Hill, the foundry operator and electrical engineer, to raise pre-tax profits by 26 per cent from £1.87m to £2.36m for the year ended March 31 1990. Turnover advanced 23 per cent from £16.68m to £20.57m.

Earnings per share were 23.41p (19.55p). The final dividend is 4p, raising the total from an equivalent 4.5p to 5.75p.

Mr John Eccles, chairman, said that while turnover was up in all group companies, a slowdown in activity became apparent towards the year end. The first two months of the new year had confirmed this trend, which would put margins under pressure.

Slight downturn at Bett Brothers

Bett Brothers, involved in property investment and development, building and ancillary services and leisure, reported taxable profits down from £1.58m to £1.5m for the six months to February 28.

The property investment or development side held up well – unit sales in the period were similar to those of last year – but leisure made a reduced contribution reflecting the high cost of servicing capital investment.

Turnover fell from £21.49m to £8.12m due mainly to a land sale in the previous year to a joint venture company.

An interim dividend of 2.1p (1.85p) is payable from earnings of 6.51p (6.61p).

Cauldon runs into losses of £138,000

A reported pre-tax loss of £138,000 at Cauldon Group for the six months to March 31, against profits of £337,000, is largely of historic interest only.

In March, the management services and specialist toolmaking concern acquired *Reece, which has made* no contribution to the current figures but which made £583,000 in the year to December 31.

Directors said its contribution, with the elimination of loss making activities, will be of benefit in the current period, which is being extended to cover the 15 months to December 31.

Turnover was down from £2.83m to £2.04m. There was a loss of 0.26p per share (0.64p earnings).

Isopad down 18% due to provisions

Isopad International, the electric surface heating group, reported an 18 per cent fall in pre-tax profits for the year to January 31 on sales up from £13.32m to £17.93m.

Directors said the sales improvement was due partly to the acquisition of Wittman last October. Margins had been under pressure throughout the year, but the profits fall from £2.5m to £2.06m was largely the result of provisions made on certain contracts. Further provisions are not expected to be required.

Earnings emerged at 10.8p (14.2p) basic and 9.5p (12.2p) fully diluted. A proposed final dividend of 3.85p makes a total of 5.5p (5p).

Improved second half at AmBrit

AmBrit International, the USM-quoted independent oil and gas exploration and production group, yesterday reported a much improved performance in the second half of 1989.

Following a net deficit of £1.12m in the first six months – which included £800,000 of exceptional and extraordinary items – the loss for the second half was reduced to £370,000 and came in spite of seasonal gas shut-ins.

The loss *for 1989 amounted* to £1.49m, against a profit of £94,000 in the previous year, although that figure was struck after an extraordinary profit of £1.4m from property activities.

The loss per share emerged at 4p (4.3p).

Ferry Pickering falls to £1.16m

Profits fell 12 per cent at Ferry Pickering Group in the six months to February 28 and the carton manufacturer does not expect the full-year result to improve on 1989.

Directors said that progress being made by recent acquisitions was not enough to offset the squeeze on UK margins.

The taxable result fell from £1.32m to £1.16m on sales up 41 per cent from £9.83m to £13.9m. The interim dividend is held at 2.1p on earnings per share of *6.07p (7.13p).*

Mr Graham Nixon, chairman, said yesterday that he had decided to step down to concentrate on the development of the business as chief executive. Mr Peter Wardle will take over as non-executive chairman.

Sales treble at Perpetual Trust

An upturn at Perpetual Trust in the six months to March 31 pushed taxable profits up 14 per cent from £766,000 to £875,000 and sales were nearly trebled from £23.02m to £68.62m. In the the previous full year, profits fell from £2.62m to £1.73m.

The company is confident of further improvement based on interest in its personal equity plans and software services as well as institutional interest in its investment services.

The interim dividend is maintained at 0.8p on earnings *per share of 2.4p (2.01p).*

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Archer (A.J), Blick, Chiltern Radio, Chrysalis, Dobson Park Industries, Fulcrum Investment Trust, Govett Atlantic Investment Trust, Greyfriars Investment, Katsey Industries, MEPC, Warner Estate.

Finals- Airflow Streamlines, British Telecom, Elliott (B), Elswick, Fine Art Developments, Gerrard & National, Honda Motor, Northumbrian Fine Foods, Smith (James) Estates, Toshiba, Verson International, Westbury, Young & Co's Brewery.

FUTURE DATES

Interims-	
NFC	June 4
Saatchi & Saatchi	June 5
Stratagem	May 31
Finals-	
Betterware Consumer Prods	June 4
Centreway Trust	May 29
Darby	June 11
Dunhill	May 30
Jurys Hotels	July 3
North American Gas Inv	May 29
Vibroplant	June 4

COMMODITIES AND AGRICULTURE

US stocks rise hits oil prices

A BIG rise in US crude oil stock levels reported late Tuesday night prompted a steep decline in world oil prices yesterday, *writes Steven Butler*.

The weekly American Petroleum Institute report showed a 4.4m barrel rise in oil in primary storage. This was the highest reported level since March 1982.

North Sea Brent oil for July delivery fell by 65 cents to close at $16.70 a barrel. Brent oil prices, however have been relatively steady because of the decline in production as summer maintenance gets under way in the North Sea.

July futures for West Texas Intermediate crude on the New York Mercantile Exchange plunged by 80 cents a barrel in midday trading at $18.12. The July contract has fallen by $1.30 since the start of the week.

The rise in US crude oil stocks was much higher than expected and threatens to delay a widely anticipated recovery in crude prices later this year. US crude stocks are now 39m barrels higher than a year ago at 381m barrels. Although gasoline stocks are about 8m barrels below last year's levels, other refined product stocks are higher and US demand is slack.

The *build* in crude stocks has been spurred in part by a longer-than-usual programme of refinery maintenance this spring. US refineries were last week operating at 85 per cent of capacity.

"It's not conclusive proof that the Opec cuts aren't working," said Mr Stephen Turner at Smith New Court, referring to an Opec agreement earlier this month to cut 1.45m b/d from output.

French group signs first Soviet exploration deal

By William Dawkins in Paris and **Steven Butler** in London

ELF AQUITAINE, the French state-controlled oil group, yesterday became the first Western oil company to sign an oil exploration and production agreement with the Soviet Union.

Mr Loïk Le Floch Prigent, Elf's chairman, signed a joint venture agreement in Moscow yesterday morning that will allow it to explore for oil and gas in more than 35,000 sq km north of the Caspian Sea.

The accord, which makes Elf operator of any fields it discovers there, marks an important breakthrough in efforts by the Western oil companies to set up operations in the Soviet Union. The relatively rapid pace at which Elf concluded the agreement is one of the first concrete demonstrations of Soviet determination to cut through serious bureaucratic and legal obstacles, and bodes well for other oil companies.

"One only makes an accord of this kind once in one's life," was Mr Le Floch Prigent's ebullient comment.

The Soviet Union, the world's biggest oil producer, badly needs Western technology and capital if it is to maintain flagging output. Oil companies are also anxious to get in because of the difficulty they find replacing their reserves elsewhere in the world. Soviet acreage is seen as highly prospective.

Mr Le Floch Prigent signed the deal with Mr Lev Voronine, the vice president of the Soviet council of Ministers and the vice ministers of the Geology Ministry and the Oil and Gas Ministry. Western oil companies have been looking for clear signs that these ministries will be able to overcome potential rivalries and work together on such accords.

The deal comes days before Friday's summit between French President Francois Mitterrand and Mr Mikhail Gorbachev, his Soviet counterpart. Elf will take a stake in production – its source of potential profit – though the details have yet to be decided.

The agreement, which has been under negotiation since last September, is "just a first step for Elf," said Mr Le Floch Prigent. It could be followed by accords for distribution and refining, possibly in partnership with other French companies. Elf was also negotiating for local production of chemicals, pharmaceuticals and cosmetics.

"It means we will participate in the increase in their oil production, which is essential given the economic condition of the country," said Mr Le Floch Prigent. He said Moscow had been "reassured" by dealing with a country that had a mixed economy, in which the state held a large stake in industry.

Initial test wells have shown the presence of oil, gas and condensate, though Mr Le Floch Prigent declined to estimate the size of any likely reserves or the investment required. "These are promising zones," he added. Seismic tests will begin within the next year.

Soviet crude production slipped by 17m tonnes to 607m tonnes last year, while exports of oil and refined products to OECD countries dropped by 10.5m tonnes to 82.7m tonnes at the same time, according to the French Industry Ministry.

Wool growers rejects price cut

By Kevin Brown in Sydney

THE AUSTRALIAN Wool Council, which represents producers, yesterday rejected an appeal by Mr John Kerin, the primary industries minister, for a cut in the intervention price for unsold wool.

The council voted unanimously at its annual meeting in Roma, Queensland, to maintain the existing intervention price of A$8.70 (£3.95) a kilogram and for an increase in the tax on producers from 8 cents to 25 cents.

The vote was in line with a formula proposed last week by the Wool Corporation, the industry's marketing arm, which also sought an increase in its borrowing powers from A$2.5bn to A$4bn.

The higher tax and increased borrowing powers would be necessary to finance increased stockpiles of unsold wool, which the Government says would rise from 2.4m bales to around 7m bales over the next three years.

The Wool Council vote followed a warning by Mr Kerin that he was prepared to use his reserve powers to enforce a cut in the intervention price, probably to A$7. He explicitly rejected the formula proposed by the Wool Corporation.

Mr Kerin has the power to override the Wool Corporation, but no primary industries minister has exercised that authority since the reserve price scheme for wool was introduced 16 years ago.

He will have a final session of talks in Canberra tomorrow with representatives of both wool industry organisations before deciding whether to act unilaterally to lower the intervention price.

If he decides to act, his decision will have to be approved by the federal Cabinet, probably at its next meeting on Tuesday. However, the Government appears united in the view that the existing floor price is unsustainable in the face of overproduction in Australia and falling demand from overseas buyers.

Gold price plunges amid heavy selling

By Kenneth Gooding, Mining Correspondent

THE GOLD market was bludgeoned again yesterday by a huge sale of physical gold in London from the Middle East. There was near-panic, particularly when traders in New York woke up to find the price plummeting during one of the longest price-fixing sessions ever seen in London.

Gold's price, which began the day by rising to $377 a troy ounce, slumped to $361 at one stage before recovering in the afternoon to close at $363¾ an ounce, down $11 from Tuesday's close.

"I have never known the price to fall so far so fast," said Mr Michael Spriggs, precious metals analyst at Warburg Securities.

Traders had not fully recovered from the pain and shock they experienced on March 26 when a burgeoning bull market for gold was cut short as between 50 tonnes and 100 tonnes of bullion was dumped for sale on the London market, forcing the price down by $26 an ounce in only a few hours.

Dealers say a far lesser quantity – about 15 tonnes – was unloaded yesterday but it had a similar impact in nervous conditions. Traders suggest that at the London morning "fix" about 9 tonnes could not immediately be absorbed and it took 2 hours 26 minutes for buyers to be found.

Interest by investors and speculators in the gold market evaporated after March 26 but was rekindled this week by news of racial tension and violence in the Welkom mining area of South Africa.

The outlook for trading now looks grim. Mr Andrew Smith, precious metals analyst at UBS Phillips & Drew said: "These two examples of how quickly stocks of gold can be mobilised will make speculators think very hard about going back into the market."

Mr Nick Hatch, analyst at James Capel, said that it would be "very bad news indeed" if the price broke below $355 an ounce. He said gold was likely to trade between $355 and $400 an ounce for the rest of this year.

It was widely believed that the same Middle East sellers were involved yesterday as on March 26. There were many rumours about motives, including that Saudi Arabia was using the sterling raised to buy arms from Britain or that the sale was linked to fast-falling oil prices.

Mr Smith said, however, "it could be something as simple as that the sellers believed the price would not go much higher than $377, so they sold because gold bullion pays no interest."

Plan agreed for sustainable forestry

By Claire Bolderson in Bali, Indonesia

TROPICAL TIMBER producing and consuming countries have adopted a Plan of Action which sets the year 2000 as the date by which all exports of tropical timber products should come from sustainably-managed resources.

The plan, agreed at the eighth session of the International Tropical Timber Council, which ended here yesterday, was described by Mr B.C.Y. Freezailah, the executive director, as "a realistic target which gives a new sense of urgency to our activities."

Although the plan puts producer-countries under considerable pressure to reform their timber industries, there were dissenters among the producer delegations and the only reservations were expressed by the US delegate, who asked for it to be recorded that he did not think targets were desirable.

It "did not carry any implications for the US government's trade policy," he added.

Nevertheless, the adoption of the plan means that producing and consuming countries are now committed to "the long-term development of appropriate forest-based industries in producing-countries," including development of value-added timber products and improved marketing and distribution of those products.

No figure has been put on the total cost of implementing the strategy. Studies by the Asian Development Bank and the Inter-American Bank, however, estimate that a total investment of $270bn will be needed to introduce sustainable practices.

As yet, there has been no decision on how exactly tropical timber producers and exporters will prove that their products come from sustainably-managed forests.

The council did, however, approve a set of guidelines on achieving sustainability. It is intended that these will form the backbone of forestry policies in all tropical timber-producing countries.

Despite the apparent degree of consensus achieved on major issues concerning the future of the timber trade, the meeting was also marked by producer concerns over the exact role of the organisation in the timber market.

Those concerns were expressed in a statement saying that discussion of sustainability and of the survival of the tropical forests must be based on sound international trade practices. It also called for a comprehensive analysis of the prices of tropical timber in the international market.

The statement concluded that only by increasing the economic value of the forests would a greater incentive exist for protection and sustainable management.

Mr Julio Centeno, director of the Latin America Institute of Forestry and a spokesman for producer-countries, said the statement reflected frustration with the role of the International Tropical Timber Organisation. The organisation had become concerned only with "the picking and choosing of aid projects" and with telling producers how to change their timber-producing policies.

He added that producer-countries felt strongly that the value of timber as a resource should be reflected in its price.

There was no formal discussion of issues raised in the statement and no official response from the consumers. Closer attention should be paid to the issue of price incentives when the council meets again later this year.

Organic pragmatism on the kibbutzim

Montague Keen on a fast-growing sector of Israeli agriculture

THE ORGANIC farming movement, which is growing rapidly in Europe, is no less vigorous in Israel – but there it is aimed almost exclusively at the high value export market.

While officially-approved organically-grown fruit and vegetables account for no more than 0.2 per cent of volume shipped they represent 2 per cent of the country's total agricultural export earnings; and the sector's size is doubling every two years.

Britain was a major customer for the £3m worth exported last year via the monopolistic Agrexco agency under the brand label Bio-Top. Demand comfortably outstrips supply.

The organic farming movement in Britain is riven with internecine disputes and its philosophy is closely derived from that odd admixture of eastern mysticism and Christian ideology known as anthroposophy.

But generally in Israel the development of organic farming is an essentially pragmatic movement.

In the mid 1970s Mario Levi was irrigation crop specialist on the kibbutz Sdeh Eliyahn. Located in a region designed by nature to attract the maximum number and variety of pests and diseases, the kibbutz was dosed with an ever-growing volume of costly chemicals, of every-decreasing efficacy.

It was against this that Mr Levi rebelled. He prevailed upon the collective to let him start a three year trial without using agrochemicals or artificial fertilisers. To general surprise, yields of carrots, potatoes and sugar beet, far from declining in accordance with conventional wisdom, either stayed level or rose.

That was what prompted Tzvi and Ros Kaye to convert their 0.3 hectares of greenhouses in northern Negev to organic tomato production. Yellow leaf virus, carried by the white fly, was forcing them to spray regularly with little apparent effect. "We were worried that we were poisoning ourselves rather than the flies," says Ros. "That was seven years ago. Today we're getting yields of 150 tonnes a hectare, which is reasonably good by local standards, and 90 per cent of it meets export standards, which is well above the average."

The rewards are certainly higher. The premium over non-organic produce varies, but it is clearly enough to stimulate an increase in membership of the Israeli Bio-Dynamic Agriculture Association which ensures strict compliance with standards and practices laid down by the international federation of organic movements. The premium is intended to compensate producers for the lower yields and extra cost involved, but while there is certainly more labour in some areas, there are substantial savings in spraying time and cost in others.

In the arid region of kibbutz Gvulot, where the soil is 95 per cent sand, another pioneer, Chaim Katzir, had to battle against scepticism before converting the kibbutz's extensive plantations of citrus and mango trees to a husbandry system totally dependent on the regular application of vast quantities of composted animal wastes.

After some years of mistakes and struggle, yields are now rising "quite dramatically" according to Mark Joffe, Mr Katzir's chief aide. They are now above average, and the acreage under tree fruits is expanding fast.

Everyone connected with the organic farming process is emphatic that it works only when producers feel a sense of commitment based on something more than the prospect of better profits.

That it is now taking less time to effect the switch from conventional farming has much to do with the speed with which producers have learned from their early mistakes, with the existence of an efficient national marketing organisation readily available and eager to promote the produce overseas, and with severe discipline to ensure that there is no cheating.

But much of the success in overcoming difficulties which UK enthusiasts have found most crippling in the early years – controlling diseases and weeds – must be attributed to the growth of integrated pest management techniques.

This used to be called biological control, in which natural predators were employed to attack pests, and it is still a major and expanding part of the arsenal in the ceaseless battle for healthier plants. But, with greater mutual understanding between the once irreconcilable advocates of organic and inorganic systems, there is recognition that both natural and "artificial" controls have their places.

Organic growers place most emphasis on prevention rather than cure. Eelworms are so serious a pest in greenhouses that soil has to be heat-sterilised to kill them. Where the heat can't reach the nematodes, as Mrs Kaye found, digging a peripheral trench for compost proved the answer: the pests simply disliked the compost, and cleared off. To ward off white fly, netting has to be hung round the walls. Sulphur, a permissible chemical, is used to control funguses and red spider mite, while quarry dust is used to lower the humidity and reduce the risks of botrytis.

Most of the guidance for this work comes from the internationally famous Volcani research instituted near Tel Aviv, where a former UK Minister of Agriculture scientist, Dr Gerald Stanhill, acts as resident guru.

Dr Stanhill, who has worked in Israeli research for 30 years, startled a London audience last autumn when he presented evidence which torpedoed two widely held assumptions about organic farming. One was that yields were inevitably smaller when crops were denied the benefit of artificial fertilisers and chemical sprays; the other was that visual quality, and therefore attractiveness to customers, suffered – reflecting the inability of the grower to deal effectively with pest damage.

In 226 comparisons between conventional and organic yields, he found that a quarter of the crops grown organically had higher yields, especially for beans. Outside fruit and vegetables, it was found that fully half the animal products grown organically had greater yields, milk in particular.

"The clear demonstration that it is possible to produce acceptably high yields without the use of any environmentally damaging chemicals whatsoever could well influence the levels used in conventional practice," Dr Stanhill suggests.

WORLD COMMODITIES PRICES

MARKET REPORT

COPPER prices eased on the LME yesterday afternoon, taking their lead from a weaker Comex. Earlier prices had moved ahead on general short covering, but were trimmed by aggressive merchant selling of cash metal. The early advance developed despite another large increase in Comex warehouse holdings (to a 13-month high of 10,169 short tons) and the bearish implications of a tentative labour contract agreement by union members at Kennecott Copper's Bingham Canyon mine. Zinc edged ahead - traders said the market was attracting good trade buying on any dip but lacked sufficient follow through interest for three-month metal to maintain a level above $1,700 a tonne. London cocoa prices reversed an earlier uptrend during the afternoon under pressure from profit taking and stale long liquidation. But dealers said few would be brave enough to take short positions until the current unrest in the Ivory Coast was resolved. London Fox's new automated rubber futures contract started yesterday, attracting trading from the Far East, the US and London. "There will be small volume business until something significant happens in the physical market," one dealer said.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$14.15-4.25q	-0.50
Brent Blend	$16.68-6.72q	-0.65
W.T.I. (1 pm est)	$18.15-8.17q	-.905
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$228-230	-3
Gas Oil	$150-151	-4
Heavy Fuel Oil	$86-88	-2
Naphtha	$150-152	-3
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$363.75	-11.0
Silver (per troy oz)♣	523c	+5.00
Platinum (per troy oz)	$495.75	-2.10
Palladium (per troy oz)	$119.75	-0.95
Aluminium (free market)	$1565	+30.0
Copper (US Producer)	124.75c	+0.75
Lead (US Producer)	45c	
Nickel (free market)	385c	-5.00
Tin (Kuala Lumpur market)	17.16r	+0.11
Tin (New York)	300c	
Zinc (US Prime Western)	87c	
Cattle (live weight)†	103.83p	-4.74*
Sheep (dead weight)†	234.91p	+22.8*
Pigs (live weight)†	109.23p	+8.47*
London daily sugar (raw)	$354.0z	+0.80
London daily sugar (white)	$447.0z	-0.50
Tate and Lyle export price	£322.5	-1.00
Barley (English feed)	£112u	
Maize (US No. 3 yellow)	£144w	+1.00
Wheat (US Dark Northern)	£124	
Rubber (Jun)♥	55.50p	
Rubber (Jul)♥	58.00p	
Rubber (KL RSS No 1 Jun)	231.5m	+0.50
Coconut oil (Philippines)§	$347.5z	-2.50
Palm Oil (Malaysian)§	$275w	
Copra (Philippines)§	$230	
Soyabeans (US)	£160v	-1.00
Cotton "A" index	88.65c	+0.70
Wooltops (64s Super)	536p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Jul. t-May/Jun. u-Aug v-May/Aug. w-Jan z-Jun/Jul y-May. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)				
Raw	Close	Previous	High/Low	
Aug	323.60	326.60	329.00	322.60
Oct	321.60	326.60	327.40	320.00
Dec	323.00	326.00	324.00	319.00
Mar	305.60	309.60	311.00	304.80
May	304.60	308.00	309.40	306.00
Aug	303.60	308.00	309.00	303.00
White	Close	Previous	High/Low	
Aug	434.5	439.0	439.0	434.5
Oct	399.0	403.0	403.0	399.0
Dec	388.8	391.5		
Mar	382.5	386.0	384.5	382.5
May	383.5	384.0		

Turnover: Raw2305 (3681)lots of 50 tonnes. White 766 (675)
Paris- White (FFr per tonne): Aug 2455, Oct 2255, Dec 2197, Mar 2175, May 2170

CRUDE OIL – IPE ($/barrel)	Latest	Previous	High/Low	
Jul	16.69	17.21	17.10	16.55
Aug	16.95	17.50	17.35	16.95
Sep	17.35	17.73	17.46	17.35
Oct	17.29	17.85	17.29	
IPE Index		17.54		

Turnover: 6268 (11207)

GAS OIL – IPE ($/tonne)	Latest	Previous	High/Low	
Jun	149.50	151.75	150.75	149.00
Jul	149.50	151.75	151.50	149.00
Aug	151.50	153.25	152.50	151.00
Sep	153.75	155.50	154.60	153.00
Oct	156.00	157.75	157.00	155.50
Nov	158.25	159.25	158.50	157.50
Dec	159.25	161.00	160.25	159.00
Jan	158.75	161.00	169.25	159.25
Feb	158.25	161.00	158.50	158.00

Turnover 9221 (5518)lots of 100 tonnes

WOOL
Buyers of wool and every product containing wool are staying out of the market as far as possible. Doubts concerning the Australian wool floor price persist, despite support for it by the AWC. A 25% levy on growers would also apply. The problem lies with the Australian government, which has been indicating preference for a levy of 20% on woolgrowers which would compel a lower overall floor price.
A final government ruling, effectively reducing the floor or leaving it unchanged is expected next week.

COCOA – London FOX (£/tonne)	Close	Previous	High/Low	
May		928	943	911
Jul		938	962	935
Sep		959	982	950
Dec		979	998	966
Mar		990	1010	982
May		1018	1028	998
Jul		1036	1033	1012

Turnover: 7486 (6180) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 22 1159.70 (1147.96). 10 day average for May 23 1100.17 (1083.75)

COFFEE – London FOX (£/tonne)	Close	Previous	High/Low	
May	687	687	645	687
Jul	657	665	666	665
Sep	667	667	676	666
Nov	680	680	689	679
Jan	692	698	700	691
Mar	705	702	715	710

turnover: 267 (3152) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 22: Comp. daily 74.61 (74.75). 15 day average 72.89 (72.78)

POTATOES – BFE (£/tonne)	Close	Previous	High/Low	
Nov	128.0	127.0	128.0	
Apr	185.0	185.0	191.0	182.0

Turnover 186 (339) lots of 40 tonnes.

SOYABEAN MEAL – BFE (£/tonne)	Close	Previous	High/Low	
Aug	119.00	119.50	119.00	
Oct	120.50	121.00	121.00	120.50
Dec	126.00		126.00	

Turnover 143 (221) lots of 20 tonnes.

FREIGHT FUTURES – BFE ($10/index point)	Close	Previous	High/Low	
May	1322	1320	1315	1310
Jun	1203	1206	1203	1185
Jul	1103	1120	1105	1095
Oct	1214	1220	1214	1205
Jan	1245	1261	1245	1235
Apr	1250	1270	1250	
BFI	1317	1316		

Turnover 253 (79)

GRAINS – BFE (£/tonne)				
Wheat	Close	Previous	High/Low	
May	120.00	121.00	120.10	120.00
Jun	120.40	121.50	120.65	120.00
Sep	113.25	113.00	113.25	112.75
Nov	117.25	116.75	117.25	116.50
Jan	120.35	120.25	120.00	
Mar	123.75	123.35	123.35	123.00
Barley	Close	Previous	High/Low	
May	103.50	104.75	103.60	
Sep	111.25	110.75	111.25	110.55
Nov	115.40	114.80	115.30	114.65

Turnover: Wheat 171 (105), Barley 34 (128).
Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg	Close	Previous	High/Low
Jun	132.0	130.5	131.0
Aug	122.0	121.5	121.5
Oct	123.5	123.0	123.0

Turnover 22 (105) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 19,800 tonne
Cash	1552-4	1563-6	1585	1565-6		
3 months	1574-5	1586-7	1596/1574	1586-7	1576-80	45,917 lots
Copper, Grade A (£ per tonne)						Ring turnover 38,025 tonne
Cash	1586-8	1606-8	1608/1604	1603-4		
3 months	1505-6	1513-4	1521/1503	1516-7	1506-7	79,581 lots
Lead (£ per tonne)						Ring turnover 6,225 tonne
Cash	488-90	489-91		489-90		
3 months	486-7	487-8	489/485	487-7.5	487-8	9,979 lots
Nickel ($ per tonne)						Ring turnover 1,158 tonne
Cash	8375-400	8450-75	8325	8275-325		
3 months	8360-400	8450-70	8450/8300	8275-325	8375-400	8,121 lots
Tin ($ per tonne)						Ring turnover 1,320 tonne
Cash	6380-90	6400-15	6410/6400	6410-20		
3 months	6500-10	6520-5	6560/6450	6520-30	6490-70	6,087 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 17,875 tonne
Cash	1755-60	1750-5	1735	1734-6		
3 months	1694-5	1688-90	1700/1680	1687-8	1697-9	18,777 lots

LME Closing £/$ rate:
SPOT: 1.6850 3 months: 1.6671 6 months: 1.6487 9 months: 1.6230

LONDON BULLION MARKET		
Gold (fine oz)	$ price	£ equivalent
Close	363½-364	215-215½
Opening	375¼-375¾	220¾-221¼
Morning fix	363.25	214.029
Afternoon fix	364.50	214.626
Day's high	377¼-377¾	
Day's low	360½-361½	
Coins	$ price	£ equivalent
Mapleleaf	371-376	219½-222½
Britannia	371-376	219½-222½
US Eagle	371-376	219½-222½
Angel	371-376	219½-222½
Krugerrand	362-365	214-216
New Sov.	85-87	50-51½
Old Sov.	85-87	50-51½
Noble Plat	501.70-509.65	295.45-300.15
Silver fix	p/fine oz	US cts equiv
Spot	300.25	509.50
3 months	311.75	520.40
6 months	322.65	530.95
12 months	344.30	553.50

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	July	Sep	July	Sep
1500	62	108	12	27
1600	25	49	54	71
1700	5	19	132	138
Copper (Grade A)	Calls		Puts	
2450	170	138	34	101
2550	107	92	70	154
2650	61	59	124	219
Coffee	Jul	Sep	Jul	Sep
600	62	82	5	16
650	29	50	22	34
700	30		55	64
Cocoa	Jul	Sep	Jul	Sep
900	55	89	20	37
950	29	61	44	60
1000	14	43	79	82
Brent Crude	Jul	Aug	Jul	Aug
1750	12		80	
1800	5			
1850	0			

New York

GOLD 100 troy oz.; $/troy oz.	Close	Previous	High/Low	
May	364.1	375.6	0	0
Jun	364.6	376.4	365.8	361.0
Jul	368.7	378.6	368.0	363.1
Aug	369.1	381.1	370.5	365.0
Oct	373.8	386.0	375.5	370.0
Dec	378.4	390.8	381.0	376.0
Feb	383.2	395.8	384.8	380.3
Apr	387.9	400.8	389.0	384.0
Jun	393.0	405.8	394.5	391.5

PLATINUM 50 troy oz; $/troy oz.	Close	Previous	High/Low	
Jul	498.2	504.9	499.5	491.0
Oct	504.6	511.0	505.5	498.0
Jan	510.6	516.9	516.5	503.0
Apr	516.5	522.8	516.0	516.0
Jul	522.4	528.7	519.5	0

SILVER 5,000 troy oz; cents/troy oz.	Close	Previous	High/Low	
May	523.0	528.3	527.0	509.3
Jun	523.9	529.5	524.0	521.5
Jul	527.8	533.5	533.0	515.0
Sep	536.4	542.0	542.0	522.5
Dec	548.3	553.8	553.0	535.0
Jan	552.2	557.7	0	0
Mar	560.0	565.4	561.0	546.4
May	568.4	573.7	571.5	561.0
Jul	576.8	582.1	0	0
Sep	585.6	590.9	0	0

INDICES				
REUTERS (Base: September 18 1931 = 100)				
	May 23	May 22	mnth ago	yr ago
	1924.6	1921.6	-	2010.7
DOW JONES (Base: Dec. 31 1974 = 100)				
	May 22	May 21	mnth ago	yr ago
Spot	135.67	136.85	135.34	134.09
Futures	134.52	134.09	134.17	132.77

HIGH GRADE COPPER 25,000 lbs; cents/lbs	Close	Previous	High/Low	
May	119.00	121.75	121.25	118.30
Jun	118.05	119.60	119.00	117.90
Jul	115.05	116.15	116.30	114.10
Aug	110.80	111.50	111.30	111.20
Sep	109.55	110.25	110.30	108.70
Oct	108.30	108.90	109.00	108.30
Nov	106.85	107.45	107.70	107.20
Dec	105.65	106.15	106.05	106.00
Jan	104.35	105.05	104.05	104.05
Mar	102.45	102.95	102.50	102.26

CRUDE OIL (Light) 42,000 US galls $/barrel	Latest	Previous	High/Low	
Jul	17.98	18.92	18.60	17.85
Aug	18.58	19.42	19.15	18.58
Sep	19.06	19.72	19.50	19.04
Feb	19.80	20.08	20.05	19.79

HEATING OIL 42,000 US galls, cents/US galls	Latest	Previous	High/Low	
Jun	4990	5140	5075	4960
Jul	4990	5121	5050	4960
Oct	5340	5450	5400	5345
Nov	5440	5540	5485	5435
Feb	5550	5595	5580	5530
Mar	5345	5405	5365	5345

COCOA 10 tonnes;$/tonnes	Close	Previous	High/Low	
Jul	1468	1491	1482	1451
Sep	1485	1509	1500	1471
Dec	1506	1525	1515	1493
Mar	1528	1544	1540	1515
May	1543	1560	1560	0
Jul	1560	1571	1580	1545

COFFEE "C" 37,500lbs; cents/lbs	Close	Previous	High/Low	
Jul	96.35	97.25	98.20	96.25
Sep	98.28	99.11	99.95	98.10
Dec	100.59	101.75	102.30	100.55
Mar	102.80	104.00	104.25	102.80
Jul	106.50	107.63	0	0
Sep	107.93	107.50	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs	Close	Previous	High/Low	
Jul	14.35	14.56	14.56	14.31
Oct	14.34	14.54	14.53	14.33
Mar	13.86	14.01	13.97	13.85
May	13.80	13.92	13.85	13.80
Jul	13.62	13.75	13.73	13.62
Oct	13.48	13.60	13.53	13.48

COTTON 50,000; cents/lbs	Close	Previous	High/Low	
Jul	79.85	79.77	81.30	79.00
Oct	71.88	72.27	72.25	70.80
Dec	68.35	68.86	69.00	67.88
Mar	69.18	69.70	69.45	69.05
May	69.55	70.00	0	0
Jul	69.40	69.97	70.10	68.85
Oct	64.26	63.75	0	0

ORANGE JUICE 15,000 lbs; cents/lbs	Close	Previous	High/Low	
Jul	195.45	194.55	195.75	194.50
Sep	191.50	190.65	192.00	190.90
Nov	185.90	184.45	185.90	184.90
Jan	182.05	179.45	183.75	181.00
Mar	182.25	180.00	181.50	181.50
May	181.35	178.20	0	0
Jul	181.35	178.00	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel	Close	Previous	High/Low	
Jul	608/6	609/0	614/4	607/6
Aug	615/2	614/6	620/2	613/4
Sep	618/2	617/2	622/4	617/0
Nov	624/6	624/4	630/6	624/0
Jan	635/6	635/4	641/4	635/0
Mar	646/4	646/2	651/4	646/0
May	654/4	653/2	660/0	654/0
Jul	660/4	659/4	665/0	660/4

SOYABEAN OIL 60,000 lbs; cents/lb	Close	Previous	High/Low	
Jul	23.47	23.38	23.70	23.26
Aug	23.27	23.22	23.53	23.11
Sep	23.08	23.01	23.30	22.91
Oct	22.85	22.73	22.95	22.63
Dec	22.52	22.37	22.65	22.30
Jan	22.27	22.20	22.45	22.15
Mar	22.02	22.02	22.30	21.98
May	21.91	21.85	22.10	21.86

SOYABEAN MEAL 100 tons; $/ton	Close	Previous	High/Low	
Jul	179.5	179.2	180.2	178.4
Aug	181.3	180.7	181.8	180.0
Sep	182.5	182.8	183.8	182.3
Oct	183.8	184.0	185.3	183.8
Dec	187.6	188.1	189.5	187.2
Jan	189.2	190.0	190.5	189.0
Mar	193.0	193.5	193.0	192.5
May	194.5	195.0	195.0	193.5

MAIZE 5,000 bu min; cents/56lb bushel	Close	Previous	High/Low	
Jul	276/2	274/6	277/0	273/4
Sep	270/6	269/2	272/2	269/4
Dec	267/6	266/2	270/0	265/2
Mar	274/0	272/0	275/2	270/6
May	277/0	275/2	279/0	274/4
Jul	279/0	276/6	282/0	277/0
Sep	271/2	272/4	272/0	270/4

WHEAT 5,000 bu min; cents/60lb-bushel	Close	Previous	High/Low	
Jul	333/6	334/6	336/4	332/2
Sep	337/4	338/6	340/6	336/4
Dec	350/0	351/2	353/0	349/2
Mar	355/4	356/4	357/4	354/4
May	349/4	348/0	353/0	349/4

LIVE CATTLE 40,000 lbs; cents/lbs	Close	Previous	High/Low	
Jun	73.72	74.37	74.27	73.30
Aug	72.97	73.77	73.60	72.86
Oct	75.40	75.82	75.65	74.85
Dec	75.62	75.90	75.82	75.00
Feb	75.30	75.67	75.75	74.80
Apr	76.05	76.30	76.40	75.80
Jun	73.25	73.60	73.90	73.25

LIVE HOGS 30,000 lb; cents/lbs	Close	Previous	High/Low	
Jun	65.70	66.92	66.65	65.42
Jul	63.12	64.62	64.25	63.12
Aug	61.27	62.57	62.25	61.07
Oct	53.62	54.70	54.50	53.20
Dec	53.55	54.62	54.35	53.22
Feb	51.42	52.25	52.00	51.00
Apr	47.70	48.40	48.20	47.20
Jun	51.00	51.40	51.25	51.00

PORK BELLIES 40,000 lbs; cents/lb	Close	Previous	High/Low	
May	67.40	69.40	67.75	67.40
Jul	67.15	69.15	68.75	67.15
Aug	64.90	65.90	65.55	64.90
Feb	59.37	60.32	60.60	59.60
Mar	59.20	60.15	59.80	59.55
May	59.20	60.15	0	0

LONDON STOCK EXCHANGE

Trade deficit checks the advance

GLOOMY NEWS on UK trade, unsettling company results and doubts over Wall Street's outlook overturned the London share market yesterday. An early further sharp advance in equities was replaced by a setback of 24 FT-SE Index points by the close of the market.

The £1.78bn trade deficit in April was at the higher end of market forecasts and "poured cold water over any hopes of an early cut in domestic interest rates," according to County NatWest, the London investment bank.

Trading volumes in equities were moderate, with the pace once again set by the FT-SE futures contract, which swayed violently during the session, closing with only a very small premium to traders' estimates of fair value by comparison with the underlying index. Fair value incorporates estimates of pending dividends and financing costs.

Overseas institutions were active in the market and some took trading profits when the market turned down. But traders said there was little inclination to sell shares when the Footsie Index dipped below 2,300 and that the downside potential appeared to be limited.

The early part of the session followed recent patterns, with the market opening lower and then moving up by 23 Footsie points ahead of the trade figures and in response to firmness in the Footsie future. But then came the moment of reckoning, when the trade figures announcement prompted a substantial setback in Government bonds and sliced the premium on the Footsie contract over the underlying index.

Depressed also by disappointing trading statements from BAT Industries and Ranks Hovis McDougall, and by anticipation of Wall Street's reaction to lower durable goods orders in the US, London ended flat. The final reading showed the FT-SE Index down 23.9 at 2,287.4 on Seaq volume of 542.1m shares, compared with 629.7m on Tuesday.

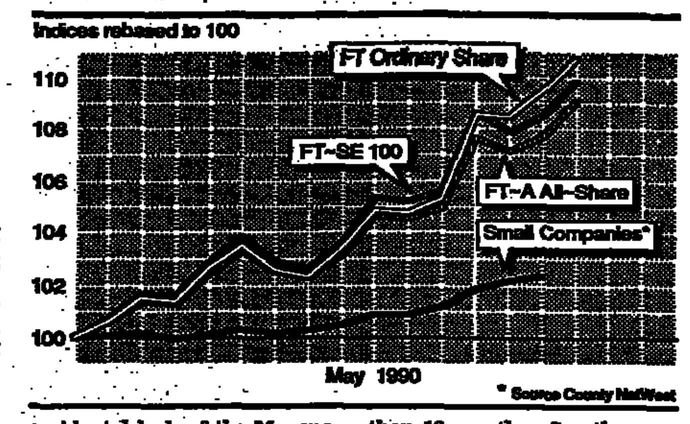
The action was mostly in the market's leading stocks, which (see chart) have been leading the way ahead since the beginning of the month; notably, smaller companies have failed so far to participate in the upturn. Pharmaceuticals, oil stocks, and the blue chip industrials, all with strong gains in place and all easy to trade in a suddenly cooler market, were sold yesterday.

The reaction by Government bonds to the April trade figures appeared to be the prime factor in unsettling equities.

Bonds have been encouraging the share market to advance, and the recent hopes of an early British move to full membership of the EMS had been translated by the equity market into an increased likelihood of cuts in UK base rates. Equity strategists now doubt if base rates can be trimmed before the end of the year at the earliest.

Account Dealing Dates		
*First Dealings:		
May 14	May 29	Jun 11
Option Declarations:		
May 24	Jun 7	Jun 21
Last Dealings:		
May 25	Jun 8	Jun 22
Account Day:		
Jun 4	Jun 18	Jul 2

*New time dealings may take place from 9.00 am two business days earlier



* Source County NatWest

Bearish news for oil sector

THE LATEST decline in oil prices – Brent crude for July delivery was down some 55 cents to $16.75 a barrel, while most types of crude fell to their lowest quotations since March 1982 – followed disappointing stockpile figures released by the American Petroleum Institute and took the shine off the oil and gas sector.

Specialists said it appeared that Opec, which previously said it was looking to cut output to around 22m barrels a day, was still pumping something like 23.5m to 24m barrels a day.

Another bearish development came from Kleinwort Benson, whose highly-rated oil team, in the vanguard of bulls of the oil sector, said it was looking for short-term weakness in oil prices and that its stance on oil stocks was to "take a short-term pause for breath to accommodate expected fresh weakness in oil prices and in the market generally."

Kleinwort's Philip Lambert blamed Opec's overproduction on Kuwait and Iran and said he thought Brent crude could dip to $15 a barrel in the next two weeks.

But the Kleinwort analyst maintained that his team is still "a medium-term bull of the sector". BP ended the day 2 off at 328p on turnover of 7.2m, while Shell were 3 down at 464p on 5.4m. Kleinwort put a "blanket hold" on the exploration sector.

MMC rules

The stores sector had an eventful day after the Monopolies and Mergers Commission report on Kingfisher's hostile £461m bid for Dixons was eventually and, in the event, prematurely released. The report recommended the bid be blocked. Early trading in both stocks was confused by an apparently accidental leak of the Monopolies report.

During the morning, speculation that the bid had been blocked depressed Dixons 6 to 125p and boosted Kingfisher 7 to 315p. The market believed, correctly, that the report had been mistakenly released a day early.

Shares in both companies were temporarily suspended at lunchtime for approximately 50 minutes until the report was finally released. Minutes after its release the shares resumed trading, with Dixons at 122p, 3 below the level it was suspended at, and Kingfisher at 314p, a penny easier.

At the close, Dixons was off 6 at 125p, while Kingfisher was 3 higher at 311p. One analyst said he believed Dixons would drift to around 110p, although there was talk of a possible Japanese bid for the company. Meanwhile, there were suggestions in some quarters that Kingfisher could now bid for Kwik-Fit or Cityvision.

RHM shaken

Ranks Hovis McDougall, the food and bakeries group, closed at its lowest level for more than 12 months after the company surprised the market by warning that profits this year would be less than in 1989.

RHM fell 30 on the news and then lost a further 9 as the rest of the market weakened, before finishing a net 38 down at 360p. A total of 4.9m shares changed hands.

The warning came as interim profit figures were released that were below market expectations. Profits in the first half stood at £81.7m, barely above those for the same period last year.

Analysts had been forecasting profits for the whole of this year of around £185m to £190m, compared with £176.5m in 1989. But in the wake of the warning, estimates for this year have now been cut to between £168m to £171m.

RHM watchers blamed a combination of increased competition in some of its key markets, the UK's economic slowdown and poor management for the change in its fortunes.

The stock had been a steady market of late as hopes built up that Sir James Goldsmith and his Sunningdale consortium would launch a takeover after he abandoned his pursuit of BAT Industries. Sunningdale holds a 29.9 per cent stake in RHM.

However, analysts were uncertain whether Sunningdale was now more likely to launch a bid. Mr Carl Short of Kitcat & Aitken said it may encourage Sir James to argue that a break-up of RHM would increase shareholders' value.

In any case, analysts said, only renewed speculation about Sunningdale's intentions would prevent fresh weakness based on RHM fundamentals.

The banks proved fairly resilient for much of the day but suddenly weakened as the session drew to a close. Barclays led the sector down as dealers picked up hints of a substantial profits downgrading. Goldman Sachs, the US investment bank, was said to have reduced its profits expectations, although this could not be confirmed. Barclays closed 15 off at 544p, having dropped to 542½p at one point; turnover expanded rapidly to 5.8m. Lloyds fell 12 to 265p on 1.3m, Midland 14 to 284p on 2.1m and NatWest 14 to 334p on 2.7m.

A dull feature was BAT Industries, finally 7 down at 685p, upset both by a sharp dip in the group's own profits and also by a fall in the value of its stake in Ranks Hovis McDougall, as the food company's shares dipped following its trading statement.

In the case of Glaxo, down 15 at 811p, the weakness was fostered by currency uncertainty as the group's year-end approaches.

A warning from BZW that Fisons might be too highly rated if the news from next week's meeting of the Federal Drugs Administration Advisory Committee on Tilade turns out badly helped to depress the shares, which ended 14 off at 357p.

Wellcome took the heaviest fall, ending 34 down at 655p after a UK broking firm revived worries over alleged problems of rejection of Retrovir, the group's anti-Aids drug. However, despite the share fall, analysts at other London securities houses showed little sign of changing their bullish stance on Wellcome.

Lucas gained 11 to 633p after Barclays de Zoete Wedd, the securities house, recommended investors to buy the stock. Mr Mark Dichlian of BZW said he believed the civil aerospace market would continue to expand, while he also foresaw growth in its new techology products despite the slowdown in the automotive industry.

British Gas attracted keen interest and retreated 6½ to 212p on 6.5m shares. Gas is scheduled to announce preliminary figures next Thursday, with the Smith New Court energy team going for net income of £940m, against last time's £896m, and a final dividend of 7.3p net, making a total of 10.5p for the year.

Smith said that on the final dividend alone the stock offers a gross yield of 4.5 per cent. Another story in the market late in the session was that a counter-bid to British Gas's near $1bn bid for Canada's Consumers Gas was imminent. A rival bidder was about to match or top Gas's offer, it was said.

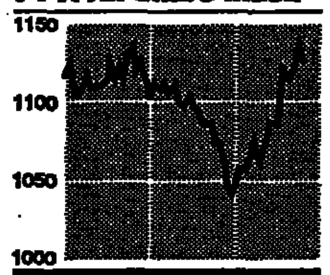
A Hoare Govett recommendation for the television companies, featuring the sharp turnround in national advertising revenue for April – it jumped 7.1 per cent that month compared with a 10.4 per cent fall in February and 2.7 per cent decline in March – drove TV shares higher. Anglia TV, Hoare's favourite in the sector, rose 11 to 248p and Scottish "A" moved ahead 9 to 512p.

Takeover speculation erupted again in Mecca Leisure, which raced up to 80p before closing a net 2 firmer at 77p; turnover in the stock remained high, at 4.2m, triggering renewed stake-building stories in the market. Rank Organisation has been put up as favourite to bid for Mecca. Rank Organisation specialist Mr Bruce Jones of Kitcat & Aitken said Rank: "Could bid for Mecca well above the present price without suffering earnings dilution; Rank could afford to pay between 120p and 130p cash per share for Mecca without dilution; a bid of 100p a share would lead to 6 per cent earnings enhancement. Rank, rated "a buy" by Kitcat, eased 2 to 802p.

Costain came in for persistent support and touched 268p before closing a net 9 higher at 264p in response to a seminar held on Tuesday. Hoare Govett, the company's brokers, were strong buyers of the shares on the view that over half Costain's profits come from its US coal businesses. Hoare said coal is taking market share from gas in the US, and that Costain's share price is over-discounting the group's exposure to housebuilding and property in the UK. Dealers in the market speculated on the possibility of Costain selling it's housing and property activities.

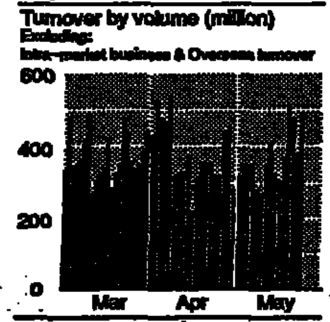
■ Other Market statistics, including the FT-Actuaries share index, Page 23

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (88). BRITISH FUNDS (2) AMERICANS (4) BREWERS (3) BUILDINGS (4) CHEMICALS (4) STORES (4) ELECTRICALS (6) ENGINEERING (4) FOODS (3) INDUSTRIALS (8) AGA AB, Bowater Inds., CRT Grp., Kelsey Inds., Lilly (Eli), Proudfoot, Robertson Grp., Spandex, Tomkins (FH) 5.8pc Cv. Pf., LEISURE (1) NEWSPAPERS (1) TOBACCOS (1) TRANSPORT (1) TRUSTS (6) OVERSEAS TRADERS (2).

NEW LOWS (89). AMERICANS (3) CANADIANS (3) BANKS (3) BREWERS (1) BUILDINGS (8) CHEMICALS (2) STORES (2) ELECTRICALS (4) ENGINEERING (3) FOODS (2) HOTELS (1) INDUSTRIALS (8) Amberley Grp., Black Arrow, Cowan de Groot, Eleco, Handley-Walker, Isotron, Norton Grp., Powell Duffryn, Tubular Edgington, INSURANCE (1) LEISURE (4) NEWSPAPERS (1) PAPERS (1) PROPERTY (8) TEXTILES (2) TRANSPORT (3) TRUSTS (7) OILS (4) MINES (11) THIRD MARKET (8).

FINANCIAL TIMES STOCK INDICES

	May 23	May 22	May 21	May 18	May 17	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	78.56	79.23	79.23	78.74	78.49	85.96	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	87.25	87.42	87.45	87.27	86.93	96.89	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1810.0	1829.5	1810.6	1793.3	1795.7	1774.0	1968.3 (3/1)	1653.6 (30/4)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	211.5	211.6	212.6	207.1	217.1	168.1	378.5 (6/2)	207.1 (18/5)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2287.4	2311.3	2282.1	2269.1	2284.4	2132.7	2463.7 (3/1)	2103.4 (30/4)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.07	5.02	5.08	5.13	5.12	4.46				
Earning Yld %(full)	11.47	11.35	11.43	11.56	11.53	10.81				
P/E Ratio(Net)(*)	10.54	10.65	10.58	10.48	10.49	11.20				
SEAQ Bargns 4.45pm	31,298	32,954	25,555	36,128	30,801	28,230				
Equity Turnover(£m)†	-	1179.21	686.61	1156.67	1192.41	1538.77				
Equity Bargains†	-	31,367	28,085	36,238	30,177	28,898				
Shares Traded (ml)†	-	491.5	387.7	478.1	506.5	599.3				

Basis 100 Govt. Secs 15/10/26. Fixed Int. 1928. Ordinary 1/7/35. Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 10.43

Ordinary Share Index, Hourly changes — Day's High 1846.4 — Day's Low 1808.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1824.8	1836.7	1841.7	1845.5	1834.6	1817.7	1812.2	1811.9	1810.8

FT-SE, Hourly changes — Day's High 2335.1 — Day's Low 2287.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2303.9	2319.9	2326.3	2332.5	2321.2	2301.9	2296.2	2292.6	2290.9

GILT EDGED ACTIVITY

Indices*	May 22	May 21
Gilt Edged Bargains	125.3	101.7
5-Day average	100.4	95.0

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
AGT	1,700	180	-1	Courtaulds	2,200	326	-10	MEPC	914	608	+6	Slough Ests	495	291	+1
ASDA Group	5,100	108	-2½	Dalgety	1,000	356	-2	Manpower	306	77	+1½	Smith (W.H.) A	585	330	+3
Abbey National	7,700	195	-1	Dixons	15,000	124	-7	Marks & Spencer	7,700	221	+½	Smith & Nephew	3,800	108½	-½
Allied-Lyons	2,100	457	-7	ECC Group	1,200	384	+7	Maxwell Comm.	474	184	+1	SmKl Beecham	2,100	533	-18
Amstrad	1,900	68	-4	Enterprise Oil	1,100	617	-8	Mecca Leisure	4,200	77	+2	SmKl Beecham Units	117	2478	-82
Anglian Water	781	181	+1	FKI	2,100	70		Midland Bank	2,100	284	-14	Smiths Inds.	1,400	258	+3
Argos	4,100	237	-4	Ferranti	2,800	37	-1	NatWest Bank	2,700	334	-14	South West Water	399	184	-5
Argyll Group	3,000	229	+2	Fisons	2,400	358	-13	Next	1,900	70	-2	Southern Water	1,800	136	-3
Ass. Brit. Foods	139	305	-1	Gen. Accident	642	1058	-4	North West Water	1,600	180	-1	Standard Chartd.	984	457½	-7½
BAA	1,000	407	+1	General Elect.	7,200	207	-1½	Northern Foods	398	303	+6	Storehouse	1,500	109	-1
BAT Inds.	2,300	684	-8	Glaxo	3,300	811	-15	Northumbrian Water	328	171	-7	Sun Alliance	2,000	522	-5
[illegible]				[illegible]				[illegible]				[illegible]			
British Land	514	340	+5	[illegible]	592	233	+1	Reuters	789	1132	-6	Unilever	1,300	689	-7
BP	7,200	328	-2	ICI	1,600	1179	-4	Rolls Royce	6,900	216	-4	United Biscuits	1,300	341	-7
British Steel	10,000	147	+1½	Inchcape	420	271	+1	Rothmans	304	688	+1	Utd. Newspapers	248	324	-1
British Telecom	7,200	276	-1	Kingfisher	4,559	311	+3	Ryl Bk Scotland	2,100	175	-1	Water Package Un.	4	£1540	-20
Bunzl	2,200	93	+3	Ladbroke	2,000	313	-1	Royal Insurance	1,500	448	-17	Wellcome	2,700	661	-28
Burmah Oil	869	628	+9	Land Securities	3,800	499	+3	STC	3,100	359		Welsh Water	411	170	-6
Burton	2,800	179	+2	Laporte	211	827	-10	Saatchi	2,000	99		Wessex Water	231	161	-5
Cable & Wire.	3,200	527	-6	Legal & General	2,000	394	-6	Sainsbury	1,600	282		Whitbread 'A'	598	418	-1
Cadburys	1,300	329	-6	Lloyds Abbey	4,800	517	-1	Scottish & New.	1,500	318	-8	Williams Hldgs.	1,300	280	-4
Calor Group	462	275	+1	Lloyds Bank	1,300	265	-12	Sears	4,200	85½	+½	Willis Faber	454	282	
Carlton Comms.	419	607	-12	LASMO	909	599	-12	Sedgwick	1,500	254		Wimpey	100	236	-1
Coats Viyella	3,200	122	+1	Lonrho	4,000	245	+2	Severn Trent Water	1,408	141	-2	Yorkshire Water	408	167	-4
Comm. Union	685	474	-10	Lucas	1,000	633	+11	Shell Transport	5,400	464	-3				
Cookson	3,400	197	-3	MB Group	1,700	214	-2	Siebe	488	470	-5				

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

APPOINTMENTS

New chief at County NatWest

■ Mr Roger Taylor has been appointed as chief operations officer of COUNTY NATWEST SECURITIES and will join the group on July 2. He was previously with BP Exploration America in Houston as a director of finance and control systems. Mr Taylor was also head of commercial systems for BP Exploration Worldwide and a member of BP America Gas executive committee.

■ Two directors have been appointed to the board of construction company HALL & TAWSE SCOTLAND, part of the Hall & Tawse Group and a member of the Raine Industries Group. They are Mr Brian Cantlay, director of estimating and buying, and Mr George Hood, director of surveying.

■ S.W.WOOD GROUP has appointed Mr Barry Giddings to its board as chief executive, a new position for the company. He has held senior managerial positins in various companies including Gulf Oil and Blue Circle Industries.

■ T.I.P. EUROPE has appointed Mr Jeff Harrison as marketing director - Europe from June 1. For the past 12 months, he has been responsible for CSL Truck Rental and Contract Hire, T.I.P.'s Yorkshire-based truck business. He succeeds Mr Christian Patricot who returns to France to become divisional director of T.I.P. France.

■ Mr Robert Caston has become vice president/managing director of HOLIDAY INNS - UNITED KINGDOM. He was previously managing director of Crest Hotels.

He will be supported by a management team which will include: Mr Paul Whitney, director of finance UK, and Mr Martin Hornbrook, director of design and construction UK. Mr Whitney was finance director at Crest Hotels and Mr Hornbrook was director of property and company architect at Crest Hotels.

■ CONTINENTAL BANK has appointed Mr Igor Hurcik (pictured) as managing director of global foreign exchange. Based in London, he will assume overall responsibility for the bank's worldwide foreign exchange and currency options business. Mr Hurcik was an executive director of Merrill Lynch in London.

■ Mr Paul Higgins is joining the board of ACT COMPUTER SUPPORT. He was previously in a senior management position with ICL. Mr John Green, the former sales director, moves to become commercial director.

■ At ALPHAMERIC Mr Stephen Sutton has become chief executive of its system division. Mr Bernard Fisher is appointed chairman of FTT Alphameric Europe and Ms Ingrid Howe president of its North American operations.

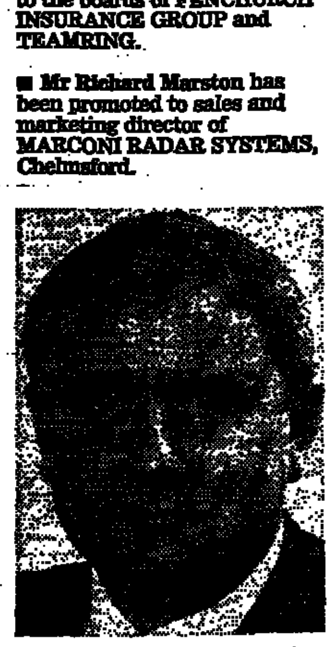
■ McGraw Hill has appointed Mr Pekka Karkkolainen as sales and marketing director at F.W. DODGE INTERNATIONAL's recently established European headquarters in Chichester. He was marketing manager at Oy Rakennusalan Projektitiedosto AB (RPT), Helsinki.

■ SECURITY PACIFIC HOARE GOVETT, the interest rate and currency risk management operating company of Security Pacific Merchant Bank in London, has made the following appointments within its swaps group. Mr Bob Falconer is appointed head of a newly-created unit which will specialise in structuring high value-added transactions with a tax/and or accounting angle. Mr Oliver Perrin is appointed head of swaps marketing to UK corporates.

■ Mr D.B. Davidson has been appointed as an assistant secretary of EDINBURGH FUND MANAGERS.

■ Mr John Paxton, managing director of Fenchurch Marine Brokers, has been appointed to the boards of FENCHURCH INSURANCE GROUP and TEAMRING.

■ Mr Richard Marston has been promoted to sales and marketing director of MARCONI RADAR SYSTEMS, Chelmsford.



■ Freight forwarding specialist ROCKWOOD INTERNATIONAL FREIGHT, part of Rockwood Holdings, has appointed Mr Keith Studer (pictured) as managing director. He joins from LEP International where he was managing director with responsibility for the Pacific region.

■ Sir Walter Bodmer joins FISONS as a non-executive director on July 1. He succeeds Sir Alan Cottrell who retired at the annual meeting. Sir Walter has been director of research at the Imperial Cancer Research Fund since 1979.

■ Mr Mark Radcliffe (pictured), a main board director of TI GROUP, has been appointed to the new position of director of public affairs from July 2. He was president and managing director of John Crane International.

■ Mr Peter Coster, formerly chief executive of Guardian Building Society, has become managing director of C & G GUARDIAN, the central lending division of Cheltenham & Gloucester Building Society.

■ Mr Ross L. McKenzie has joined the board of ALEXANDER HOWDEN, the London-based wholesale insurance broking subsidiary of Alexander & Alexander Services. He has also been appointed chief executive officer of Alexander Howden Non-Marine. He remains chairman of the recently formed Alexander Howden Asia Pacific.

■ Mr Michael Blackburn has become a director of GEI INTERNATIONAL. He is chairman of the board of Touche Ross & Co and was chief executive of that firm for six years until April.

LONDON SHARE SERVICE

BRITISH FUNDS

1990 High	1990 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
		"Shorts" (Lives up to Five Years)				
[illegible]						
		Five to Fifteen Years				
[illegible]						
		Over Fifteen Years				
[illegible]						
		Undated				
[illegible]						

BRITISH FUNDS—Contd

1990 High	1990 Low	Stock	Price £	+ or –	Yield Int.	Yield Red.
		Index-Linked				
[illegible]						

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. [illegible]

INT. BANK AND O'SEAS

[illegible]						

CORPORATION LOANS

[illegible]						

COMMONWEALTH & AFRICAN LOANS

[illegible]						

LOANS

Building Societies

[illegible]						

Public Board and Ind.

[illegible]						

FOREIGN BONDS & RAILS

1990 High	1990 Low	Stock	Price £	+ or –	Div % Gross	Red. Yield
[illegible]						

AMERICANS

1990 High	1990 Low	Stock	Price	+ or –	Div Gross	Cvr	Yld Gr's
[illegible]							

AMERICANS—Contd

1990 High	1990 Low	Stock	Price	+ or –	Div Gross	Cvr	Yld Gr's
[illegible]							

CANADIANS

1990 High	1990 Low	Stock	Price	+ or –	Div Gross	Cvr	Yld Gr's
[illegible]							

For Seagram see BEERS, WINES & SPIRITS

Continued on next page

LONDON SHARE SERVICE

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

MOTORS, AIRCRAFT TRADES — Contd

Components

1990 High	Low	Stock		Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
498	420	Abbey Panels		455	.....	3.5	10.8	1.0	12.0
225	203	Airflow Streamlines	y	215	.....	6.0	4.2	3.7	8.6
190	145	Bostrom 5p	y	162	+2	5.75	3.1	4.7	7.4
266	191	Dowty 50p		228	+8	8.0	2.3	4.7	12.0
239	155	FR Group		157	−2	6.37	♦	5.4	♦
135	63	Kwik-Fit Hldgs. 10p		77	−6	2.4	1.7	4.2	19.4
694	568	Lucas Inds. £1		655	+11	25.0	3.0	5.3	7.2
16	8½	Spice 5p	y	9	.....	1.2	0.4	♦	69.0

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND — Contd

TRUSTS, FINANCE, LAND — Contd

Finance, Land, etc

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES — Contd

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock		Price	+ or −
Craig & Rose £1	y	850	.....
Finlay Pkg. 5p	y	53	.....
Holt (Jos) 25p	y	1290	.....

IRISH

Stock		Price	+ or −
Cap. 8½% Ln. 1991		£98	.....
9pc Cap Ln. 1996		£94¼	.....
Fin. 13% 97/02		£113	.....
Arnotts		415	.....
Carrol (P.J.)	y	147	.....
Hall (R. & H.)		175	.....
Heiton Hldgs.	y	75	.....
IRG		208	.....
United Drug		165	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	39
Amstrad	5½
Astec (BSR)	5¾
BAT	83
BOC Grp.	45
BTR	36
Barclays	49
Blue Circle	19
Boots	23
Bowaters	38
Brit. Aerospace	42
British Steel	9
Brit. Telecom	25
Cadburys	27
Charter Cons.	48
Comm Union	49
Courtaulds	24
Eurotunnel	60
FKI	7
FNFC	21
Gen Accident	98
GEC	18
Glaxo	56
Grand Met.	45
Guardian	39
GKN	33
Hanson	18
Hawker Sidd.	55
ICI	85
Ladbroke	25
Legal & Gen.	34
Lex Service	26
Lloyds Bank	22
Lucas Inds.	52
Marks & Spencer	17
Midland Bk.	27
Nat West Bk.	29
P & O Dfd.	50
Polly Peck	37
Racal Elect.	19
RHM	35
Rank Org Ord.	68
Reed Intnl	33
STC	28
Sears	9½
SmKl. Beecham A	46
TI	38
TSB	11
Tesco	17
Thorn EMI	61
Trust Houses	22
T&N	17
Unilever	56
Vickers	18
Wellcome	60

Property	
Brit Land	32
Control Secs.	5
Land Securities	49
MEPC	44
Mountleigh	14

Oils	
Aviva Petm.	5½
Brit Petroleum	28
Burmah Oil	52
Conroy Petm.	12
Gaelic Res.	4½
Premier	10
Shell	37
Tuskar Res.	10
Ultramar	31

Mines	
Lonrho	20
RTZ	45

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
High Income						
American Income	6	51.18	51.18	54.73	-0.09	5.01
Gilts & Fixed Int	6	105.7	105.7	112.1	-0.3	9.81
High Inc Equity	6	131.9	135.4xd	144.0	+1.5	4.41
Worldwide Bond	6	189.3	189.3xd	200.6	-1.4	6.43
Capital Growth						
American Growth	6	190.2	191.9	204.1	-1.1	1.14
Asian Pacific	6	140.6	143.8	152.9	.....	0.00
Assets & Earnings	6	153.8	153.8	164.4	+1.3	2.95
Capital Reserve Acc	0	92.38	92.38	92.51	+0.03	6.49
Capital Reserve Inc	0	77.65	77.65	77.75	+0.02	7.72
Comdty & Energy	6	96.08	96.08	102.7	+0.7	0.00
Dividend & Growth	6	47.26	48.36	51.44	-2.25	4.37
1992 Enterprise	6	61.80	63.07	67.09	+0.34	2.00
Euro Capital Acc	6	103.7	103.7	110.9	-0.1	0.86
Euro Capital Inc	6	99.54	99.54xd	106.4	-0.1	0.89
General	6	173.5	173.5	185.5	+2.2	2.70
International	6	60.26	60.89	64.77	+0.58	0.77
Japan	6	101.0	101.0	108.0	+0.7	0.00
Mastertrust	6	89.79	89.79	96.03	+0.24	1.54
UK Growth Acc	6	171.20	171.20	183.10	+1.2	1.77
UK Growth Dist	6	111.90	111.90xd	119.60	+0.8	2.71
US Emerging Cos	6	58.66	58.66	62.73	+0.68	0.00
Income & Growth	6	294.30	294.30xd	314.70	+2.5	3.26
Ethical	6	47.17	47.17	50.44	+0.36	1.98

Abtrust Management Ltd (1200)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Amer Inc & Growth	5¼	32.47	32.47xd	34.66	-0.08	2.15
European	5¼	93.18	93.35	99.66	+0.13	0.00
European Income	5¼	88.67	88.67xd	94.61	-0.02	1.45
Exempt	1	753.3	753.3xd	777.5	+1.30	1.29
Exempt Income	3¼	175.9	175.9	186.2	+0.60	4.66
Exempt American	3¼	387.2	387.2xd	405.9	-1.50	1.46
Exempt Pacific	3¼	266.0	266.0	279.2	+2.40	0.00
Extra Income	5¼	42.27	42.27	45.12	+0.22	5.64
F East Emerg Econs	5¼	65.15	65.95	70.20	+0.85	0.00
Fund Inv Tst	5	127.5	131.7xd	140.5	+0.80	1.37
Do Accum	5	201.4	208.0xd	222.1	+1.20	1.37
Gilt & Fixed Int	5¼	16.72	17.10	18.26	+0.01	13.40
Income & Growth	5¼	68.08	68.08xd	72.68	+0.29	5.71

Brown Shipley & Co Ltd—Contd.

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
North American	6	64.06	64.06	68.22	-0.28	0.38
Orient &	6	119.4	120.4xd	128.6	+0.18	-
Recovery	6	44.74	44.74xd	47.65	+0.03	3.80
Smaller Cos Acc	6	234.8	234.8	251.2	+0.50	-
Smaller Cos Inc	6	143.8	143.8xd	153.9	+0.40	1.26

Brycourt Unit Tst Mgmt Ltd (1400)F
Hesketh Hse, Portman Sq, W1H 0JR 071-935 6382

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income Growth	1	187.8	187.8xd	194.6	.....	5.00

Buckmaster Mangmt Co Ltd (1200)H
15 St Botolph Street, London EC3A 7JJ 071-247 4542

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Emerging Gwth	5¼	57.87	57.87	61.34	+0.37	3.08
(Accum Units)	5¼	59.92	59.92	63.52	+0.39	3.11
Fellowship Tst	5¼	62.86	63.60	67.67	+0.08	2.79
(Accum Units)	5¼	65.72	66.50	70.75	+0.08	2.72
General Inc	5¼	289.7	289.7	307.1	+0.8	3.53
(Accum Units)	5¼	496.5	496.5	526.3	+1.3	3.54
Income	5¼	154.7	157.3	166.9	+1.3	4.36
(Accum Units)	5¼	314.7	319.2	338.7	+2.5	4.40
International	5¼	106.6	106.6	113.0	+0.1	1.00
(Accum Units)	5¼	147.3	147.3	156.1	+0.1	1.00
Smaller Co's	5¼	95.67	97.38	103.6	+0.6	2.07
(Accum Units)	5¼	106.0	108.1	115.0	+0.8	2.07
Inv Portfolio	3	54.04	54.04	55.93	+0.54	2.91
(Accum Units)	3	56.66	56.66	58.64	+0.57	2.91
High Income Port	3	45.24	46.13	47.81	+0.79	4.89

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 071-480 7216

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Short Dated Gilt	1¼	56.15	56.15	56.96	+0.02	6.97

CCF Foster Braithwaite UT Mngt (1100)F
1 White Hart Yard, London SE1 1NX 071-407 5966

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
CCF Sel High Inc Eqty	5¼	47.48	48.27	51.36	+0.43	5.5
CCF Sel Intl Gwth	5¼	47.66	47.66	51.30	-0.02	1.46
CCF Sel Inv Tst	5¼	46.90	48.15	51.23	+0.45	2.0
CCF Sel UK Sm Co's	5¼	44.84	46.16	49.11	+0.24	1.00

CCL Unit Trusts Ltd (1400)F
74 Shepherds Bush Green, W12 8SD 081-740 7070

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
UK General Tst	5¼	54.40	55.55	59.09	-0.09	2.86
Global Tst	5¼	46.85	47.37	50.39	+0.02	0.35
Recovery Tst	5¼	45.82	47.03	50.03	+0.02	1.92

CIBC Unit Tst Managers plc (1200)H
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 071 234 6000

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Growth Fd Acc	5	115.3	116.6xd	123.0	+0.20	5.21

CIS Unit Managers Ltd (1000)F
PO Box 105, Manchester M60 0AH 061 837 5060

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
UK Growth	6	103.5	105.0	111.8	+1.2	2.57
UK Income	6	100.9	102.5xd	109.1	+1.3	5.84

Midland Unit Trusts Ltd (1200)F
192 Eyre Street, Sheffield, S1 3RD 0742 529888

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
British Tst	6	61.40	61.40	65.67	+0.18	3.41
(Accum Units)	6	63.85	63.85	68.29	+0.19	3.41
Capital	6	107.8	107.8	115.3	+0.3	2.51
(Accum Units)	6	157.1	157.1	168.0	+0.4	2.51
European Growth	6	163.7	163.7xd	174.3	+1.1	0.67
(Accum Units)	6	201.8	201.8	215.0	+1.3	0.67
Extra High Inc	6	64.27	65.61	70.17	+0.34	7.51
(Accum Units)	6	91.98	93.87	100.4	+0.46	7.51
Gilt & Fxd Int	4	46.98	46.98	49.03	-0.24	10.19
(Accum Units)	4	100.1	100.1	104.4	-0.5	10.39
High Yield	6	193.7	197.0xd	210.7	+1.0	5.82
(Accum Units)	6	392.8	399.5	427.3	+2.0	5.82
Income	6	237.6	237.6	254.1	+1.3	4.84
(Accum Units)	6	437.4	437.4	467.8	+2.2	4.84

Perpetual Unit Tst Mngmt (1200)F
48 Hart Street, Henley on Thames 0491 576868

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
International Gwth	5¼	356.26	356.26	381.03	+0.64	1.04
Income	5	232.29	232.29xd	248.34	+0.78	5.46
W'wide Recovery	5¼	213.95	213.95	228.83	+0.37	1.09
American Growth	5¼	98.49	98.91	105.79	-0.20	1.52
Intl Emerging Cos	5¼	101.72	101.72	108.80	+0.51	3.47
Far East Gwth	5¼	135.42	137.37	146.92	+2.48	2.08
European Gwth	5¼	101.40	101.89	108.98	+1.48	1.51
UK Growth	5¼	46.40	46.40	49.63	-0.18	3.16
High Income	5¼	54.85	54.85	58.67	-0.54	6.22
Japanese Gwth	5¼	154.59	154.80	165.57	+0.74	0.01
PEP Gwth & Inc	5¼	56.14	56.48	60.41	+0.36	2.42
Asian Smllr Mkts	5¼	49.46	49.89	53.36	+0.13	1.40

Phillips & Drew Unit Managers Ltd (1400)F
14 Finsbury Square, London EC2A 1PD 071-628 6070

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Gartline Fxd Int May 23	¼	90.30	90.30	90.65	+2.4	10.7
Gartline Intl Ltd May 23	¼	99.12	99.12	99.58	+2.11	2.6
UK Exempt May 17	¼	101.7	101.7	104.0	.....	5.6
Gartline Intl May 18	¼	122.3	122.3	124.1	.....	2.6

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♠ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or –	Yield Gr's
Timberlake Trust Mngrs Ltd (0900)F						
1 White Hart Yard, London SE1 1NX 071-407 5966						
Portfolio	2	97.69	97.69	100.53	+0.59	1.17
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing–12 Noon Historic						
TR American Grth	5¼	48.73	48.73	51.97	-0.11	0
TR Eur Sp Sits Acc	5¼	45.99	45.99	48.89	+0.05	0
TR Eur Sp Sits Inc	5¼	45.10	45.10	47.96	+0.05	0
TR Far East Opps Inc	5¼	24.20	24.28	25.83	+0.13	–
TR Far East Opps Acc	5¼	24.20	24.28	25.83	+0.13	–
TR General Growth	5¼	75.65	75.65	80.47	-0.49	2.55
TR Global Tech	5¼	77.86	77.86xd	83.05	+0.25	0
TR Income Growth	5¼	86.70	86.70	92.23	-0.61	4.34
TR Income Monthly	5¼	51.77	51.77	55.07	+0.06	7.37
TR Japan Growth	7½	85.15	85.15	90.56	+0.39	0
TR Overseas Growth	5¼	68.25	68.25xd	72.74	-0.06	0
TR Smaller Cos	5¼	74.60	74.60	79.36	+0.38	2.42
TR Special Opps	5¼	84.24	84.26	89.61	+0.75	0.95
TR Mgd Eq Pton Acc	5¼	35.49	35.49	37.75	-0.16	2.63
TR Mgd Eq Ptn Inc	5¼	33.28	33.28	35.40	-0.15	2.63
TR Wwide Sp Sit Acc	5¼	39.18	39.18	41.75	+0.38	0
TR Wwide Sp Sit Inc	5¼	39.14	39.14	41.70	+0.32	0
TR Pension Portfolio						
TR American Grwth §	6	29.19	29.58	31.35	+0.06	0
TR Eur Sp Sits §	6	36.67	37.04	39.26	+0.14	0
TR General Growth §	6	25.32	25.59	27.13	+0.15	0
TR Global Tech §	6	30.65	31.04	32.90	+0.35	0
TR Income Growth §	6	25.52	25.79	27.34	+0.14	0
TR Japan Growth §	6	26.67	26.89	28.50	+0.11	0
TR Mgd Equity §	6	27.42	27.71	29.37	-0.14	0
TR Overseas Growth §	6	29.31	29.69	31.47	—	0
TR Smaller Cos §	6	17.63	17.82	18.88	+0.15	0
TR Special Ops §	6	17.31	17.49	18.54	+0.15	0
TR Stlg Liquidity §	6	26.19	26.45	27.76	—	0
TR Wwide Sp Sits §	6	31.91	32.34	34.28	+0.34	0
Trades Union Unit Tst Mngrs (1200)H						
NLA Tower, Addiscombe Road, Croydon 081-686 4355						
TUUT	5	240.7	254.3	267.6	+1.3	3.23
Triton Fd Mngrs. Ltd. (1000)H						
Royal Ldn. Hse. Colchester CO1 1RA 0206 764400						
Triton General	5¼	168.8	171.5xd	182.5	+1.2	3.16

	Bid Price	Offer Price	+ or –	Yield Gross
Thornton Unit Managers Ltd				
Managed Exempt May 15	100.28	107.20xd	—	3.85
(Accum Units)	101.06	108.11xd	—	3.85
Touche Remnant Unit Tst Mngt Ltd				
TR Exempt European	1305	1319xd	—	1.37
TR Exempt Nth Amer	970	983xd	—	3.30
TR Exempt Pac Basin	920	934xd	—	0

INSURANCES

	Bid Price	Offer Price	+ or –	Yield Gross
AA Friendly Society				
(Investment Mngt by G & C Inv Mngt Ltd)				
AA Friendly Sy May 11	–	145.4	—	–
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth 0202 292373				
Prop. Ser. 1	299.1	314.9	—	–
Equity Ser. 1	132.0	139.0	+1.5	–
Prop. Acc. Ser 2	461.0	485.3	—	–
Equity Ser 2	153.0	161.1	+1.6	–
Selective Acc	350.0	368.5	+1.5	–
Prop. Ser. 4	363.8	383.0	—	–
Equity Ser. 4	156.2	164.5	+1.3	–
Man. Ser. 4	445.6	469.1	+2.0	–
Fixed Int. Ser. 4	216.8	228.3	-2.0	–
Indexed Inv. Ser. 4	146.4	154.2	-0.7	–
American Ser. 4	326.4	343.6	-8.7	–
Japan Ser 4	301.8	317.7	+2.0	–
European Ser 4	128.9	135.7	—	–
High Inc. Ser. 4	465.2	489.7	+4.8	–
Money Ser. 4	248.9	262.1	—	–
Intl Ser. 4	114.9	121.0	+0.8	–
Canadian Ser. 4	104.5	110.0	-0.1	–
Pension Funds				
Property	647.9	682.1	—	–
Equity	1152.0	1212.7	+13.4	–
Selective	380.0	400.1	+1.8	–
Managed	853.1	898.0	+7.5	–
Security	491.7	517.6	-3.1	–

Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 683986

	Bid Price	Offer Price	+ or -	Yield Gross
NUAM Funds				
Managed Fund	66.6	70.2	+0.2	-
Stock Market Mngt Fund	65.6	69.0	+0.2	-
Equity Fund	69.9	73.6	+0.3	-
International Fund	62.8	66.2	+0.2	-
European Fund	75.2	79.2	+0.7	-
North American Fund	61.0	64.2	-0.1	-
Pacific Fund	66.3	69.7	+0.3	-
Property Fund	87.2	91.8	+0.1	-
Fixed Interest Fund	50.0	52.7	-0.4	-
Index Linked Sec Fund	57.9	60.9	-0.5	-
Deposit Fund	62.8	66.2	+0.1	-
NUAM Retirement Plans				
Mixed Fund	72.0	75.8	+0.1	-
UK Ordinary Share Fd	80.7	85.0	+0.4	-
International Fund	66.6	70.1	+0.2	-
Property Fund	84.9	89.4	.....	-
Fixed Interest Fund	58.8	61.9	-0.7	-
Index Linked Sec Fund	60.8	64.0	-0.4	-
Deposit Fund	71.8	75.6	----	-
NUAM (NIF)				
Managed Fund	938.5	987.9	+2.5	-
Equity Fund	1910.6	2011.2	+9.6	-
International Fund	165.8	174.6	+0.6	-
Property Fund	551.0	580.0	+0.1	-
Fixed Interest Fund	374.7	394.5	-3.3	-
Index Linked Sec Fund	58.9	62.0	-0.5	-
Deposit Fund	258.1	271.7	+0.1	-

Norwich Union Life Insurance Soc.
Surrey Street, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	+ or -	Yield Gross
Unitised Life				
With Profits Fd	101.25	106.58	+0.03	-
Managed Fd	92.57	97.45	+0.43	-
UK Ord Share Fd	93.26	98.17	+0.69	-
International Fd	93.33	98.25	+0.38	-
European Fd	107.49	113.14	+0.94	-
North American Fd	92.85	97.73	-0.22	-
Pacific Fd	83.90	88.32	+0.49	-
Property Fd	100.06	105.33	+0.02	-
Fixed Int Fd	90.74	95.51	-0.38	-
Intl Bond Fd	90.83	95.61	+0.11	-
Deposit Fd	101.64	106.99	+0.06	-
Unitised Pensions				
With Profits Fd	131.80	138.73	+0.05	-
Managed Fd	145.14	152.78	+0.32	-
UK Equity Fd	149.32	157.18	+0.99	-
International Fd	158.04	166.36	+0.32	-
European Fd	173.78	182.92	+1.88	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Provident Life Assce Ltd
Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	+ or -	Yield Gross
Unit Fund (Mixed)	1049.9	1102.4	+7.4	-
Equity Fund	243.5	255.7	+2.9	-
International Fd	159.0	167.0	+0.3	-
Fixed Interest Fd	151.4	159.0	-0.1	-
Property Fund	225.7	237.0	....	-
Index-Linked Fund	145.8	153.1	+0.1	-
Deposit Fund	149.2	156.7	---	-
Pens Mixed (Ord) Fd	252.0	264.6	+2.0	-
Gold Pensions				
Discretionary Fund		122.7	+0.9	-
Equity Fund		124.0	+1.6	-
Fixed Interest Fund		109.7	-0.1	-
International Fund		121.1	+0.1	-
Property Fund		137.4	----	-
Index-Linked Fund		121.8	+0.2	-
Deposit Fund		125.8	+0.1	-
S & F Consolidated		115.7	....	-
S & F Balanced		129.4	+1.0	-
S & F Maximum Growth		105.1	+0.9	-

Provident Mutual Life Assc. Assn.
Willian Rd, Hitchin, Herts SG4 0LP 0438 739000

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Ord	332.9	350.4	-0.1	-
Managed Init	259.9	273.6	----	-
Equity Ord	471.8	495.8	+0.3	-
Equity Init	367.7	387.1	+0.3	-
Index Linked Gilt Ord	144.5	152.1	-0.5	-
Index Linked Gilt Init	117.8	124.0	-0.5	-
Overseas Equity Ord	298.7	314.4	+0.7	-
Overseas Equity Init	233.2	245.5	+0.6	-
Property Ord	220.9	232.5	---	-
Property Init	172.5	181.6	----	-
Fixed Interest Ord	172.4	181.5	-1.6	-
Fixed Interest Init	134.6	141.7	-1.2	-
Deposit Ord	156.7	164.9	+0.1	-
Deposit Init	122.3	128.7	----	-
Pension Funds				
Managed Ord	416.8	438.7	---	-
Managed Init	325.3	342.4	-0.1	-
Equity Ord	609.3	641.4	+0.6	-
Equity Init	475.6	500.6	+0.3	-
Pen Ind Lkd Gilt Ord	159.5	167.9	-0.6	-
Pen Ind Lkd Gilt Init	130.1	136.9	-0.6	-
Overseas Equity Ord	343.7	361.8	+0.9	-
Overseas Equity Init	268.3	282.4	+0.6	-
Property Ord	276.2	290.7	+0.1	-
Property Init	215.6	226.9	----	-
Fixed Interest Ord	207.8	218.7	-1.8	-
Fixed Interest Init	162.2	170.7	-1.4	-
Deposit Ord	211.0	222.1	+0.1	-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE INSURANCES

[illegible]

OFFSHORE AND OVERSEAS

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)

[illegible]

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

	Bid Price	Offer Price	+ or -	Yield Gross
Lazard Fund Managers -Contd.				
Lazard Global Equity	$28.08	29.87	—	—
Lazard Int Inc $ (Inc)	$1080.46	1054.97	—	8.60
Lazard Int $ Inc (Acc)	$2232.42	2283.9	—	—
Lazard Int Inc £ (Inc)	£8.70	9.15	—	12.0
Lazard Int Inc £ (Acc)	£10.96	11.55	—	—
Lazard Japan Fund	$32.57	34.34	—	—
Lazard Nth Am	$20.90	22.25	—	—
Lazard Sel Port £ Cap	£13.80	14.91	—	—
Lazard Sel Port £ Inc	£8.61	9.12	—	13.99
Lazard Sel Port $ Cap	$13.64	14.72	—	—
Lazard Sel Port $ Inc	$8.41	8.89	—	9.27
Merrill Lynch Int Capital Mngt (GSY) Ltd				
Bangkok Fd NAV May 16		$80.48	—	—
India Fd NAV May 17		$2.1490	—	—
[illegible]		$11.49	—	—
Euro Spain NAV May 17		$10.45	—	—
[illegible] Portfolio NAV		$11.81	-0.08	—
(For information only)				
NM Financial Mngmt Intl Ltd				
Mngd. Currency	£6.237	6.594	-0.022	6.45
NM Portfolio Selection Fund Ltd				
Conscience	£1.034	1.099	+0.003	1.40
Far East Gwth	$1.374	1.461	+0.007	0.00
Smaller Co's	£0.916	0.974	+0.008	1.20
Special Sits	£0.952	1.012	+0.008	0.79
Intl Bond	$0.876	0.931	+0.004	8.04
American Fund	$2.078	2.210	+0.002	2.08
American Smaller Cos	$1.282	1.362	+0.006	0.00
Australian Fund	£1.500	1.595	+0.009	1.95
British Fund	£1.572	1.672	+0.008	6.27
European Fund	£2.392	2.544	+0.022	0.83
Gold Fund	$0.692	0.736	+0.006	0.00
Hong Kong Fund	£1.829	1.945	+0.035	5.85
International Fund	£1.400	1.489	+0.005	0.95
Japanese Fund	$2.721	2.894	+0.013	0.00

	Bid Price	Offer Price	+ or -	Yield Gross
Sterling Fd BOPUPs	£10.21	10.22	—	—
Sterling Fd OPUPs	£11.79	11.87	—	—
DM Fd BOPUPs	DM9.97	9.980	—	—
DM Fd OPUPs	DM10.42	10.48	—	—
Yen Fd BOPUPs	$7.61	7.62	—	—
Yen Fd OPUPs	$10.76	10.83	—	—
Wardley Investment Services Ltd				
Wardley S.E. Asia Tst	$12.89	13.68	+0.1	0.80
Japanese Warrants	$8.38	8.88	-0.13	—
Asian Warrants	$9.54	10.11	-0.04	—
European Warrants	$10.10	10.70	-0.24	—
Wells Fargo U.S. IT Fund				
NAV May 22		$9.91	—	—
Xiphias International Investment Fd Ltd				
Xiphias Int USD		$1.0031	—	—
Xiphias Int ECU		Ecu1.0087	—	—

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
CAF Money Management Co Ltd				
48 Pembury Road, Tonbridge TN9 2JD				0732 770114
Cafcash Deposit Fd.	14.82	—	15.66	3-Mth
The COIF Charities Deposit Account				
2 Fore Street, London EC2Y 5AQ				071-588 1815
Deposit	14.68	—	15.73	3-Mth
Gartmore Money Management Ltd				
2-3 White Hart Yard, London SE1R 1NX				071-236 1425
Call Fnd	14.38	11.22	15.38	6-Mth
7-day Fund	14.50	11.31	15.52	6-Mth
Special Fund	14.91	—	16.36	1-Mth
Dollar	6.94	5.41	7.36	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Aitken Home Bank plc				

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

D-Mark continues to weaken

ACTION BY the West German Bundesbank yesterday, adding liquidity to the Frankfurt money market, was purely technical but put further downward pressure on the D-Mark. The Bundesbank's move was seen as an indication that German interest rates will not be increased in the immediate future.

Expectations of rising inflation led to speculation that the Bundesbank would tighten its monetary stance, but Mr Karl Otto Pöhl, Bundesbank President, said in a press interview that he does not feel the risk of inflation will be increased as a result of German unity.

A cut in the rate at which the Dutch Central Bank provides money market liquidity also suggested to the market that the prospects of higher European interest rates have faded. Yesterday the Dutch authorities reduced the special advances rate to 7.8 from 7.9 per cent, following a general easing of money market rates in Amsterdam.

The Netherlands keeps the guilder tightly pegged to the D-Mark, and yesterday Mr Alfons Verplaetse, Governor of the Belgian National Bank, confirmed that the Belgian franc will also track the D-Mark more closely, unless the German currency weakens significantly.

Dealers viewed this as an indication that the Belgian currency will be held within a 1 per cent range against the D-Mark, compared with its allowed margin against all members of the European Monetary System of 2¼ per cent.

At last night's close the D-Mark was near the bottom of the EMS, losing ground to the Italian lira, the highest placed EMS currency, and the weakest member, the French franc. The D-Mark eased to L734.10 from L734.25 against the lira and to FFr3.3660 from FFr3.3675. Earlier in the day the Bank of Italy bought DM63m and FFr60m at the Milan fixing in an attempt to stem the strength of the lira.

Sterling rallied after weakening in reaction to the UK trade figures. A current account deficit of £1.78bn in April was an improvement on the March shortfall of a revised £2.09bn, but was above market expectations of around £1.5bn. The pound lost ground on the news, falling to around DM2.82, but then picked up, influenced by speculation about full British membership of the EMS.

At the London close sterling rose to DM2.8325 from DM2.8225; to $1.6935 from $1.6915; and to FFr9.5350 from FFr9.5050, but fell to SFr2.3900 from SFr2.4000 and to Y256.00 from Y256.25. On Bank of England figures the pound's index gained 0.1 to 89.0.

The dollar showed little reaction to a larger than expected fall of 4.1 per cent in April US durable goods orders. It continued to improve against EMS currencies, while weakening against the Japanese yen. The dollar rose to DM1.6725 from DM1.6690 and to FFr5.6300 from FFr5.6200, but fell to Y151.20 from Y151.55 and to SFr1.4115 from SFr1.4185. Its index lost 0.1 to 67.2.

£ IN NEW YORK

May.23	Latest	Previous Close
£ Spot	1.6920-1.6930	1.6925-1.6935
1 month	0.97-0.96pm	0.98-0.97pm
3 months	2.82-2.80pm	2.69-2.67pm
12 months	9.04-8.97pm	8.85-8.75pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May.23	Previous
8.30 am	89.0	88.8
9.00 am	89.0	88.8
10.00 am	88.9	88.7
11.00 am	88.9	88.8
Noon	88.9	88.8
1.00 pm	89.0	88.8
2.00 pm	89.1	88.8
3.00 pm	89.0	88.8
4.00 pm	89.1	88.9

CURRENCY RATES

May.23	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	-	0.781069	0.724603
U.S Dollar	7	1.31907	1.22987
Canadian $	13.32	1.57207	1.45739
Austrian Sch.	6½	15.5004	1.60830
Belgian Franc	10¼	45.4453	42.3505
Danish Krone	10½	8.37543	7.82196
Deutsche Mark	6.00	2.20549	2.05388
Neth. Guilder	7.00	2.48051	2.30895
French Franc	10¼	7.42900	6.90817
Italian Lira	13½	1620.11	1507.02
Japanese Yen	5¼	201.026	186.141
Norway Krone	8	8.49613	7.92281
Spanish Peseta	-	137.066	127.857
Swedish Krona	11	7.99950	7.45780
Swiss Franc	6.00	1.87506	1.73780
Greek Drach.	20½	N/A	201.809
Irish Punt	-	N/A	0.766225

† European Commission Calculations.
* All SDR rates are for May.22

CURRENCY MOVEMENTS

May.23	Bank of England Index	Morgan** Guaranty Changes %
Sterling	89.1	-22.8
U.S Dollar	67.2	-10.6
Canadian Dollar	102.7	+0.8
Austrian Schilling	109.4	+11.6
Belgian Franc	111.1	-2.2
Danish Krone	110.6	+5.0
Deutsche Mark	118.3	+24.3
Swiss Franc	114.7	+22.3
Guilder	114.5	+16.4
French Franc	104.2	-12.2
Lira	101.2	-18.2
Yen	122.6	+51.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for May.22 .

OTHER CURRENCIES

May.23	£	$
Argentina	8861.00-8866.80	5220.00-5240.00
Australia	2.2160-2.2180	1.3060-1.3070
Brazil	86.9970-87.0610	51.2500-51.7500
Finland	6.6425-6.6550	3.9150-3.9180
Greece	278.85-280.35	162.45-165.15
Hong Kong	13.1910-13.2040	7.7790-7.7810
Iran	118.20*	69.40*
Korea(Sth)	1194.00-1213.25	709.20-714.80
Kuwait	0.49460-0.49590	0.29130-0.29190
Luxembourg	58.30-58.40	34.40-34.50
Malaysia	4.5770-4.5880	2.6995-2.7015
Mexico	4781.85-4818.65	2817.00-2837.00
N. Zealand	2.9540-2.9585	1.7410-1.7430
Saudi Ar.	6.3685-6.3740	3.7505-3.7515
Singapore	3.1355-3.1425	1.8515-1.8535
S. Af (Cm)	4.4640-4.4756	2.6455-2.6470
S. Af (Fn)	6.6905-6.8250	3.9450-4.0240
Taiwan	46.35-46.65	27.50-27.55
U.A.E.	6.2350-6.2405	3.6730-3.6740

*Selling rate

EURO-CURRENCY INTEREST RATES

May 23	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	15-14⅞	15⅛-14⅞	15⅛-14⅞	15⅛-15	15⅛-14⅞	14⅞-14⅞
US Dollar	8⅜-8¼	8⅜-8¼	8⅜-8¼	8⅜-8¼	8½-8⅜	8⅝-8½
Can. Dollar	13¾-13⅝	13½-13¼	13½-13¼	13½-13¼	13½-13¼	13½-13¼
D. Guilder	8½-7¾	8¼-7¾	8¼-7¾	8⅜-8¼	8½-8¼	8⅝-8½
Sw. Franc	8¾-8⅝	8¾-8⅝	8¾-8½	8¾-8⅝	8¾-8⅝	8⅝-8½
Deutschmark	8⅛-8⅛	8⅛-8⅛	8-7¾	8¼-8⅛	8⅜-8¼	8⅝-8½
Fr. Franc	9⅝-9⅜	9⅝-9⅜	9⅝-9⅜	9⅞-9⅝	10-9⅞	10⅛-10⅛
Italian Lira	13-11	12¼-11½	12¼-11½	12-11½	12-11½	12⅛-12
Belgian Franc	10⅛-10	10⅛-9⅞	10⅛-9⅞	10⅛-9⅞	10⅛-9⅞	10⅛-9⅞
Yen	7¼-7⅛	7⅛-7⅛	7⅛-7⅛	7⅜-7¼	7⅛-7⅛	7⅛-7⅛
D. Krone	10¾-10¼	10⅝-10⅛	10⅝-10⅛	10⅝-10⅛	10⅝-10⅛	10⅝-10⅛
Asian $Sing	8⅛-8⅛	8¼-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛

Long term Eurodollars: two years 9⅛-9 per cent; three years 9¼-9⅛ per cent; four years 9⅜-9¼ per cent; five years 9½-9⅜ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

May.23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6930-1.6985	1.6930-1.6940	0.97-0.95cpm	6.80	2.80-2.77pm	6.58
Canada	2.0045-2.1440	2.0090-2.0100	0.23-0.17cpm	1.55	0.67-0.56pm	1.33
Netherlands	3.17½-3.19	3.18-3.19	1¾-1½cpm	6.67	5¼-5⅛pm	6.45
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.22-5.17cpm 12 month 9.03-8.93cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

May.23	Day's spread	Close	One month	% p.a.	Three months	% p.a.
Denmark	6.32¾-6.37½	6.36½-6.37	1.05-1.35oredis	-2.23	3.20-3.90dis	-2.23
W. Germany	1.6610-1.6735	1.6720-1.6730	0.04-0.02pfpm	0.26	0.08-0.06pm	0.15
Portugal	146.85-147.20	147.10-147.20	86-96cdis	-7.38	285-300dis	-7.95
Spain	103.25-104.10	104.00-104.10	52-56cdis	-6.22	150-158dis	-5.96
Italy	1219-1228	1227½-1228	3.50-4.00liredis	-3.55	10.00-11.00dis	-3.26
Norway	6.42-6.45	6.44½-6.45	1.45-1.80oredis	-3.12	4.85-5.45dis	-3.21
France	5.59-5.63¾	5.62¾-5.63¼	0.65-0.70cdis	-1.54	2.00-2.10dis	-1.51
Sweden	6.04½-6.07¾	6.07¼-6.07¾	2.00-2.25oredis	-4.37	6.40-6.75dis	-4.44
Japan	150.75-151.75	151.15-151.25	0.13-0.11ypm	1.10	0.40-0.37pm	1.04
Austria	11.69¾-11.75	11.73¼-11.73¾	0.15pm-0.25grdis	-0.05	0.10pm-1.00dis	-0.16
Switzerland	1.4040-1.4135	1.4110-1.4120	0.06-0.09cdis	-0.57	0.15-0.20dis	-0.45
ECU	1.2290-1.2310	1.2295-1.2305	0.21-0.20cpm	1.90	0.61-0.58pm	1.95

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May.23	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.1679	42.3505	+0.43	+0.43	±1.5508
Danish Krone	7.79845	7.82196	+0.30	+0.30	±1.6453
German D-Mark	2.04446	2.05388	+0.45	+0.45	±1.1762
French Franc	6.85684	6.90817	+0.75	+0.75	±1.3618
Dutch Guilder	2.30358	2.30895	+0.23	+0.23	±1.5272
Irish Punt	0.763159	0.766225	+0.40	+0.40	±1.6689
Italian Lira	1529.70	1507.02	-1.48	-1.48	±1.5162
Spanish Peseta	132.889	127.857	-3.79	-3.79	±4.2705

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

May 23	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.693	2.832	256.0	9.535	2.390	3.185	2079	2.009	58.35
$	0.591	1	1.673	151.2	5.632	1.412	1.881	1228	1.187	34.47
DM	0.353	0.598	1	90.40	3.367	0.844	1.125	734.1	0.709	20.60
YEN	3.906	6.613	11.06	1000.	37.25	9.336	12.44	8121	7.848	227.9
F Fr.	1.049	1.776	2.970	268.5	10.	2.507	3.340	2180	2.107	61.20
S Fr.	0.418	0.708	1.185	107.1	3.990	1	1.333	869.9	0.841	24.41
H Fl.	0.314	0.532	0.889	80.38	2.994	0.750	1	652.7	0.631	18.32
Lira	0.481	0.814	1.362	123.1	4.586	1.150	1.532	1000.	0.966	28.07
C $	0.498	0.843	1.410	127.4	4.746	1.190	1.585	1035	1	29.04
B Fr.	1.714	2.901	4.853	438.7	16.34	4.096	5.458	3563	3.443	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS

LIFFE US TREASURY BOND FUTURES OPTIONS

LIFFE BUND FUTURES OPTIONS

LIFFE EURODMARK OPTIONS

LIFFE EURODOLLAR OPTIONS

LIFFE SHORT STERLING OPTIONS

LONDON (LIFFE)

CHICAGO

CAC-40 FUTURES (MATIF) Stock Index

	Open	Close	Change	High	Low	Open Int.
May	2142.0	2123.0	-8.0	2143.0	2118.5	3,374
June	2146.0	2127.5	-9.5	2148.0	2125.0	1,793
July	2146.0	2132.0	-5.0	2146.0	2129.0	147
September	-	-	-	-	-	10

Estimated volume 5,761 Total Open Interest 5,324

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6935	1.6839	1.6657	1.6415	1.6037

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Jun	1.6902	1.6916	1.6876	1.6842
Sep	1.6642	1.6654	1.6612	1.6586
Dec	1.6400	1.6400	1.6400	1.6354

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	NatWestminster	15
Adam & Company	15	Cyprus Popular Bk	15	Northern Bank Ltd	15
Allied Trust Bank	15	Dunbar Bank PLC	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Duncan Lawrie	15	Provincial Bank PLC	16
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe G'rantee	15½
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc.	16½	● Smith & Williamson Secs.	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co.	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptnrs.	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank Plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hampshire Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bnk.	15	Westpac Bank Corp.	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15½
Brit Bk of Mid East	15	C. Hoare & Co.	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk.	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk. N. East	15	Mount Banking	15		
Co-operative Bank	*16	Nat Bk. of Kuwait	15		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.9% Sumrise 8.5%. Top Tier-£50,000+ instant access 13.7% & Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.95%

MONEY MARKETS

A firmer tone

THERE WAS a firmer tone to interest rates in London yesterday as UK trade figures for April proved disappointing. Three-month interbank was quoted at 15⅛-15 per cent against 15-14⅞, while 12-month money rose to 14⅞-14¾ per cent from 14¾-14⅝. On Liffe September short sterling futures opened firmer at 85.51, but weakened on the trade news, to close at 85.39 compared with 85.48 previously.

UK clearing bank base lending rate 15 per cent from October 5

Credit was in very short supply on the money market. The Bank of England initially forecast a day-to-day shortage of £1,100m, but revised this to £1,050m in the afternoon. Total help of £1,063m was provided.

An early round of help was offered and at that time the authorities bought £574m bills outright, by way of £268m bank bills in band 1 at 14⅞ per cent and £306m bank bills in band 2 at 14¾ per cent.

Before lunch another £52m bills were purchased, via £10m bank bills in band 1 at 14⅞ per cent and £42m bank bills in band 2 at 14¾ per cent. In the afternoon the Bank of England bought £117m bills, through £66m bank bills in band 1 at 14⅞ per cent; £3m Treasury bills in band 2 at 14¾ per cent; and £48m bank bills in band 2 at 14¾ per cent. Late assistance of around £320m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,462m, with a rise in the note circulation absorbing £140m, and bank balances below target £165m. These outweighed Exchequer transactions adding £680m to liquidity.

In Frankfurt call money eased to 7.90 from 7.95 per cent, after the Bundesbank added a net DM7.9bn of liquidity at this week's securities repurchase agreement tender. The central bank accepted bids of DM18.2bn at a tender for 35-day money, against an expiring facility of DM10.3bn. Banks paid 7.80-8.10 per cent at the tender, unchanged from a similar pact set last week.

Dealers said the allocation was adequate, but was not a sign of easier monetary policy. The extra funds were needed to repay money borrowed from the Bundesbank earlier this week and in settlement for a Federal Government bond. Banks must also build up reserve requirements before the end of the month. These averaged DM58.1bn during the first 21-day's of May, against a requirement of DM59.1bn for the whole month.

FT LONDON INTERBANK FIXING

(11.00 a.m. May.23) 3 months US dollars		6 months US Dollars	
bid 8¼	offer 8⅜	bid 8⅜	offer 8½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Lunchtime — Treasury Bills and Bonds

Prime rate	10	One month	7.65	Three year	8.60
Broker loan rate	9¼	Two month	7.80	Four year	8.64
Fed.funds	8⅛	Three month	7.96	Five year	8.65
Fed.funds at intervention	-	Six month	8.18	Seven year	8.70
		One year	8.21	10-year	8.67
		Two year	8.55	30-year	8.63

May.23	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.85-7.95	8.05-8.15	8.10-8.20	8.20-8.30	8.50-8.65	8.00
Paris	9¾-9⅞	9⅝-9¾	9¾-9⅞	9¾-9⅞	9⅞-10	9.50
Zurich	8¾-8⅞	8⅝-8⅞	-	8⅝-8¾	-	-
Amsterdam	8.10-8.20	8.17-8.27	-	8.35-8.45	-	-
Tokyo	7⅜-7⅛	7⅛-7⅞	-	7⅛-7⅞	-	-
Milan	11⅝-11⅞	12⅛-12½	-	12-12⅛	-	-
Brussels	8.10	9⅞-10	-	9⅞-10	-	-
Dublin	11½-11⅝	11½-11⅝	11⅞-11⅞	11⅞-11⅞	11¾-11⅞	-

LONDON MONEY RATES

May 23	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	16	15⅛	15⅛	15⅛	15⅛	14⅞
Interbank Bid	14⅞	14⅞	14⅞	14⅞	14⅞	14⅞
Sterling CDs	-	-	15	15	14⅞	14¾
Local Authority Deps.	15⅛	14⅞	14⅞	14¾	14¾	14¾
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15⅛	14⅞	14⅞	14¾	-	-
Company Deposits	-	-	14⅞	15	14⅞	14⅞
Finance House Deposits	-	-	14⅞	15	15	14⅞
Treasury Bills (Buy)	-	-	14⅞	14⅞	-	-
Bank Bills (Buy)	-	-	14⅞	14⅞	14	-
Fine Trade Bills (Buy)	-	-	15⅜	15⅜	14⅞	-
Dollar CDs	-	-	8.27	8.37	8.48	8.75
SDR Linked Dep. Offer	-	-	8⅞	9⅛	9⅛	9⅜
SDR Linked Dep. Bid	-	-	8¾	8⅞	9⅛	9¼
ECU Linked Dep. Offer	-	-	10⅛	10⅛	10⅜	10⅜
ECU Linked Dep. Bid	-	-	9⅞	10⅛	10⅛	10¼

Treasury Bills (sell); one-month 14⅜ per cent; three months 14⅞ per cent; Bank Bills (sell): one-month 14⅞ per cent; three months 14⅞ per cent; Treasury Bills: Average tender rate of discount 14.4513 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30 ,1990 . Agreed rates for period May 26 to June 25 , 1990, Scheme I: 15.94 p.c., Schemes II & III: 16.49 p.c. Reference rate for period March 31,1990 to April 30 , 1990, Scheme IV&V: 15.247 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from May 1 , 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct. 9,1989 , Deposits withdrawn for cash 5 per cent.

COMPANY NOTICES

GADEK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIVIDEND

At the forthcoming Annual General Meeting of the Company to be held on 19th June 1990, the Board of Directors of the Company will recommend the payment of a final dividend of 5 sen per share less 35% Malaysian Income Tax, for the year ended 31st December, 1989. The dividend if approved, will be paid on 28th June 1990 to shareholders registered in the Books of the Company on 14th June, 1990.

NOTICE IS HEREBY GIVEN that the Register of Members of the company will be closed from 15th June 1990 to 21st June 1990 (both dates inclusive) for preparation of Dividend Warrants. Duly completed transfers received by the Company's Registrars, SPK KHIDMAT SDN BHD, at 12th Floor, Wisma SPK, Jalan Sultan Ismail, 50250 Kuala Lumpur, up to 5.00 p.m. on 14th June 1990 will be registered for the dividend to be declared.

By Order of the Board
AHMAD SHAHAB B HAJI DIN
RIDWAN B MUSTAFFA
Secretaries

Kuala Lumpur
Malaysia
18th May 1990

JOTTER PAD

CROSSWORD

No.7,246 Set by CINEPHILE

ACROSS

1 Box number, on holiday and at home (6)
4 Does hair badly in the old country (8)
10 Heaven sends rain swirling around front (7)
11 Seeker for food finds article held by faker (7)
12 Rubbish on a register (4)
13, 15, 21 More cigarettes fob Hardy off – it's his work (3,5,2,12)
15, 7 Puma, short of nothing, eats flowers, fine sweet food (6,5)
16 Fish with companion in a month at start of year (7)
20 Fish in alarm in Victorian port (7)
21 See 13, 28 and 1 down
24 Sapper and parson, without gym, get better (10)
26 See 27
28, 21 Game for sale at pilot's place (7,6)
29 It's the reverse of cosy – dangerous and maybe lethal (7)
30 Small specimen fished, getting covered with stars? (8)
31, 15 Stimulant for actors, with hesitation, may be something to be sneezed at (6,6)

DOWN

1, 21 Game to remove an arch or two? (8,6)
2 A set move in strong point is earnest (9)
3 Religious leader one minute before noon (4)
5 Monarch keeps off girl whose tales are musical (8)
6 Bird involved with heresy – in place of the Dove? (10)
7 See 15
8 Unable to steer in a little heavy snow? (6)
9 Hiding place for money, by the sound of it (5)
14 Source of healthy season (10)
17 Shooed off, when bigwig's about, from store of recordings (5,4)
18 Put spell on door (8)
19 Lorry-driver turns mum when examiner's about (8)
22 Ladies of the lakes? (6)
23 Coach for all the world? (5)
25 Companies take a drink (5)
27, 26 Lobby for return of North African mountain (8)

Solution to Puzzle No.7,245

THE TIME HAS COME / PLATO / NAKEDNESS / DELIGHT / RETRACE / RONDO / OFFHANDED / POSSESSOR / KAYAK / REPOSED / IMPREST / HAPHAZARD / ABUSE / DAY OF ATONEMENT

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | ITALY (continued) | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | MALAYSIA | SINGAPORE

[illegible]

CANADA

TORONTO

2pm prices May 23

[illegible]

INDICES

NEW YORK

DOW JONES	May 22	May 21	May 18	May 17	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2852.23	2844.68	2819.91	2831.71	2852.23 (22/5)	2543.24 (30/1)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	90.16	89.95	90.04	89.96	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1169.63	1180.83	1177.28	1171.96	1201.18 (2/1)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	213.09	214.22	214.73	215.29	236.23 (2/1)	208.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2877.15 (2859.72) Low 2828.51 (2802.08)

STANDARD AND POOR'S

	May 22	May 21	May 18	May 17	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	358.43	358.00	354.64	354.47	359.69 (2/1)	322.98 (30/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	418.20	417.23	412.75	412.44	417.23 (21/5)	371.92 (30/1)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	29.48	29.50	29.24	29.25	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	195.58	195.28	193.55	193.49	198.00 (2/1)	178.43 (30/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	359.85	359.36	356.32	354.94	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	453.89	452.89	448.31	445.74	460.90 (3/1)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	May 18	May 11	May 4	year ago (approx.)
Dow Industrial Div. Yield	3.99	3.93	4.05	3.35

	May 16	May 9	May 2	year ago (approx.)
S & P Industrial div. yield	2.98	3.07	3.13	3.17
S & P Indl. P/E ratio	15.49	15.20	14.85	12.82

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Nova Corp.	3,934,300	7	-⅛
Verity Corp.	2,912,100	3	—
Computer Assc	2,378,900	15⅛	-⅜
Philip Morris	2,298,500	45	+½
Texas Utl.	2,236,500	36¼	+¼
Fannie Mae	2,183,300	40¼	—
Fed. Express	2,072,700	46⅞	-5¼
Nat. Semi	1,995,400	8¼	—
AT & T	1,974,900	43⅛	-⅛
IBM	1,933,600	117½	+½

TRADING ACTIVITY

† Volume (Millions)	May 22	May 21	May 18
New York	203.350	166.280	168.454
Amex	14.284	11.442	11.637
NASDAQ	190.164	169.571	191.411
Issues Traded	1,990	2,007	1,987
Rises	813	980	745
Falls	695	531	715
Unchanged	482	496	527
New Highs	117	108	53
New Lows	32	33	38

CANADA

TORONTO	May 22	May 21	May 18	May 17	1990 HIGH	1990 LOW
Metals & Minerals	3104.30	(c)	3053.40	3064.80	3453.05 (4/1)	2850.80 (23/4)
Composite	3540.60	(c)	3521.30	3509.50	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1827.76	(c)	1816.38	1811.67	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

[illegible]

TOKYO - Most Active Stocks

Wednesday May 23 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsui Eng&Shp	24.2m	958	+4	Sasebo Hvy Ids	13.6m	1,080	0
Sanyo Electric	23.6m	968	+27	NKK	13.1m	646	+6
Nippon Steel	22.3m	618	-6	NGK Spark Plug	11.7m	1,840	+50
Mitsubishi Hv Id	17.3m	1,000	0	Kawasaki Hv Ids	11.1m	930	+5
Sharp	13.9m	1,820	0	Kobe Steel	9.4m	648	+14

3pm prices May 23

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	20¾	AAR	.48	2.2	13	988	21⅞	21½	21⅝	
9⅝	8	ACM n	1.01	12.		188	8⅝	8½	8½	− ⅛
11⅛	9⅜	ACMIn	1.26	13.		898	9¾	9⅝	9⅝	+ ⅛
9⅞	7¼	ACM M	n1.01	13.		233	7⅞	7¾	7¾	
12⅛	10	ACMMM				276	10⅝	10⅜	10½	
11½	9⅜	ACM Sc	1.26	13.		603	9¾	9⅝	9⅝	− ⅛
9⅛	8½	ACMSp	1.01	12.		708	8½	8⅜	8½	+ ⅛
22⅞	14⅝	AL Lab	.16	.7	18	110	21⅞	21⅝	21¾	+ ⅛
4⅛	3	AMCA	.20e	6.7	9	1	3	3	3	
6⅛	2⅛	AM Intl			8	1267	2½	2⅜	2⅜	− ⅛
23⅛	10¾	AM In pf	2	18.		55	11⅛	11	11⅛	+ ⅛
107¼	52½	AMR			12	4368	64⅜	63¾	64⅛	− ⅝
27	25	ANR pf	2.67	11.		1	25¼	25¼	25¼	
4⅛	3	ARX				55	3½	3⅜	3⅜	
72¾	39	ASA	3a	6.1		1574	50⅛	49¾	49⅞	−2⅛
72¼	55¼	AbtLab	1.68	2.3	16	2549	u73¼	71⅞	72⅝	+ ⅝
36½	27⅞	AbtLb wi				14	u36⅞	36⅜	36⅞	+ ⅞
16⅞	11¼	Abitibi g	.50			12	12⅝	12⅝	12⅝	− ⅛
13	8¾	AcmeC	.40	4.4	11	65	9½	9⅛	9⅛	− ⅛
9⅛	7⅞	AcmeE	.32	3.6	11	17	8⅞	8⅞	8⅞	− ⅛
41¾	28⅞	Acuson			25	328	u41⅞	41¼	41½	− ⅛
16½	13¼	AdaEx	2.08e	13.		62	16⅛	16	16	− ⅛
16⅞	9	Adobe				48	12⅜	12	12	− ½
20¼	17⅜	Adob pf	1.84	9.7		47	19⅛	19	19	
11¼	6⅞	AMD			23	10135	u11¼	10⅝	11	+ ⅛
35	28¼	AMD pf	3	9.3		442	32¼	32	32¼	
10⅛	4⅛	Advest	.16	3.6	58	384	4½	4⅜	4½	+ ⅛
62½	45¼	AetnLf	2.76	5.2	9	2266	52⅞	51⅞	52¾	+1
14	9¾	AlliPb	.24	2.4		109	9⅞	9⅞	9⅞	
[illegible]										

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14¾	8	Reece	.15e	1.8	2		8¾	8½	8¾	
½	5-32	Regal				146	15-32	7-16	7-16	−1-32
15⅝	11⅞	ReichTg	1.76e	15.	7	188	12¼	11¾	12⅛	+ ⅛
8⅞	4⅞	RelGrp	.32	5.4	128	1	6	6	6	
24⅞	19⅛	Repsol	n.27e	1.1		603	24¼	24⅛	24¼	
6⅝	4	RepGyp	.05j		52	133	4¼	4	4¼	
52⅞	42½	RepNY	1.32	2.7	348	789	49¼	48⅝	48⅝	− ⅛
11¼	1⅝	Rvlnn				13	2½	2½	2½	
33⅞	18¾	ReyRey	.80	3.6	10	698	22⅞	22¼	22¼	− ⅛
60⅞	46½	ReyMtl	1.80	3.2	7	2285	57	56¼	56¼	− ⅞
19	14⅞	RhP pfA				5	16¼	16¼	16¼	
3½	1⅞	RhnP wt				110	2½	2⅜	2½	+ ⅛
22	16½	RhnPl n				107	18⅝	17⅞	18⅛	+ ⅜
41⅛	29½	RiteAid	.90	2.7	14	219	34	33⅝	33⅝	− ¼
14⅛	9⅝	Robtsn			26	249	11	10½	10⅞	+ ⅛
22⅛	17½	RochG	1.56	8.2	10	33	19¼	19⅛	19⅛	
45⅞	29⅞	RochTl	s1.48	4.4	16	620	34¼	33¼	33½	− ⅝
22⅛	18⅝	RckCtr	1.88	10.	17	294	18⅝	18½	18½	− ⅛
27⅛	19⅜	Rockwl	.76	3.0	11	3678	25⅞	25¼	25¾	+ ½
7⅛	5	RodRen				2	6¼	6¼	6¼	
37½	26¼	RoHaas	1.20	3.5	13	494	34⅞	34¼	34⅜	− ⅛
33⅝	18½	Rohr			269	167	21⅝	21⅜	21½	− ⅛
14½	9⅝	RollinE	.08	.6		4684	u14⅞	14⅛	14⅝	+ ⅜
21	15⅞	Rollins	.56	2.9	19	48	19⅜	19¼	19¼	− ¼
9⅞	7⅛	RolLeas	.20	2.3	10	71	9	8¾	8⅞	
70	36⅛	Rorer	.84	1.2	32	1294	68	67¾	67⅞	
14¼	7⅞	Rowan				1294	14	13¾	14	− ⅛
25¾	21¾	RBSct	pr1.41e	6.2		80	22⅞	22⅞	22⅞	+ ¼
79⅛	60⅛	RoylD	3.85e	5.0	6	4109	77⅛	76¼	76⅞	− ⅛
15¼	8½	Roylnt	.20e	2.1	18	12	9¾	9⅝	9¾	− ⅛
10	8½	Royce	.52e	5.5		46	9¾	9¼	9⅜	
39⅞	29⅞	Rubmd	.52	1.3	24	1377	38⅞	38½	38⅝	− ⅛
20	13⅞	RussBr	.40	2.7	14	40	14⅝	14¼	14⅝	+ ½
15	7⅝	RussTg	.20	2.5		17	7⅞	7⅝	7⅞	+ ⅛
27¼	20	Russell	.32	1.2	16	371	26⅛	25⅝	25⅝	− ⅝
31⅛	17⅞	Ryder	.60	2.9	62	1013	21⅛	21	21	− ⅛
[illegible]										

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
29⅞	9¼	StorTc s			17	3247				
35¼	19¼	Stratus			17	1727				
30¼	19½	StridR s	.40	1.8	14	1051				
9½	5	SumSh			37	84				
10½	9	SunDis	n1.10	12.		85				
4⅛	3	SunDisB				131				
24¾	13⅛	SunEl				1129				
13⅝	10⅞	SunEng	1.35e	12.	30	38				
43¼	35¼	SunCo	1.80	4.7	71	522				
88½	58⅛	Sundstr	2.20	2.8	12	659				
4¼	2⅞	SunMn				2167				
9⅞	8⅛	SunM	pf1.19	13.		39				
26⅞	20⅛	SunTrst	.84	3.6	9	6079				
22	15⅞	SuprFd	s.32	1.7	15	175				
30⅛	23⅞	SupValu	.60	2.3	13	895				
26⅞	16¼	Suprind	s.28b	1.1	72	129				
25⅞	8⅝	SyblTc			16	4037				
14	10¼	SymsCp			9	6				
19½	14	Synovs	.36	2.4	15	36				
58	40	Syntex	1.60	2.8	21	4735				
35½	22¼	Sysco s	.20	.6	25	1901				
25⅝	16½	SystCt			17	547				
		−T−T−T−								
29	15⅝	TCBY	.12	.6	20	1213				
17⅞	9¼	TCF Fn	.40	4.0	7	77				
8½	7⅛	TCW	.84	10.		497				
29½	24⅞	TECO	1.62	5.6	12	507				
9⅛	6¼	TIS	1.24e	17.	6	285				
21¼	11⅞	TJX	.46	3.3	15	1491				
22½	16¼	TNP	1.83	11.	9	226				
51⅞	43	TRW	1.72	3.5	12	940				
5¼	2⅛	TacBt wi				595				
40⅝	18	Taiwan	14.75e	60.		770				
14	7⅞	TalBey	.68	6.1	4	178				
84¼	69	Tambd	2.16	2.6	23	181				
[illegible]										

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
12⅞	6⅞	StriCh	1	15.	9	736	7	d 6½	6⅝	− ⅛
10⅞	6¼	StartSft			13	63	10½	10½	10⅛	− ⅛
48⅞	38½	StrtSt	pf7.20	15.		6	46⅞	46⅛	46⅞	+ ⅛
7⅞	4⅞	Stifel			15	94	5½	5½	5½	
45¾	33⅜	StneW	s1.28	3.5	27	1779	34⅞	34¼	34⅞	+ ¼
33	16¼	StoneC	.72	3.7	5	729	20⅛	19½	19⅝	− ½
10⅝	6⅛	StonBr				59	7⅛	7⅛	7⅛	
14½	7	StorEq	.20	2.4	7	176	8¼	8⅛	8¼	+ ⅛
[illegible]										
21⅞	15¼	UAM	.40	2.2	19	114	18⅝	18⅝	18½	
19⅞	14⅝	UnDom	1.24	7.9	33	164	15⅞	15⅝	15⅝	+ ⅛
34¼	26⅞	Utilcorp	2.32	8.2	5	115	28⅞	27⅞	28⅛	+ ½
14	8⅞	Unitlnd	.84	8.6	9	142	9⅞	9½	9⅞	+ ⅞
31⅞	6⅞	Unitrn		2.8		26	5	5	5	
20⅛	15⅞	Unitrw	.30	1.8	11	1	17⅛	17⅛	17⅛	
11½	8¼	UKing	.58e	5.8		198	10¼	10	10⅛	+ ⅛

... v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices May 23

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
AT&E			830	19⅛	18⅞	19	
ATT Fd	2.39e		146	57⅞	57¼	57⅞	
Acton		10	12	11¼	11⅛	11⅛	
AirExp		10	40	17⅞	17⅝	17⅞	− ⅛
AlbaW		7	5	8⅞	8⅞	8⅞	
Alfin			51	2⅞	2¼	2¼	
Alphain			5	2⅞	2⅞	2⅞	
Alza		73	1475	42⅞	41⅞	42½	+ ¼
Amdhl	.10	18	3896	16	15⅞	15⅞	+ ⅛
AMzeA	.64		286	19⅛	19	19	
[illegible]							
Constn			12	1	15-16	15-16	−1-16
ContMtl			5	14⅞	14⅛	14⅛	− ⅞
Coron g	.10e		1233	7⅞	7	7	− ⅝
Cross	1.24	15	330	29⅞	29¼	29⅞	+ ⅞
CrnCP	.80e	16	227	34	33¼	34	+1
CrCPB	.80e	15	73	32½	32	32½	+ ⅛
Cubic	.48	7	493	u24⅛	23⅞	24	+ ⅝
Custmd		6	1694	⅞	⅞	⅞	
CyprFd			122	9	8½	9	+ ⅛
−D−D−							
[illegible]							
−I−I−							
ICH			2766	3⅞	3¼	3⅞	
ISS	.24	16	23	10⅞	10½	10⅞	+ ⅛
ImpOil	g1.80		477	50⅞	50¼	50¼	− ⅜
InstSy		9	132	1½	1⅛	1½	+ ⅛
IntgSy			31	2¼	2⅛	2⅛	− ⅛
Intmk	.12		8	7¼	7⅛	7⅛	
IntBknt		8	136	2⅞	2¼	2⅞	+ ⅛
InThob			193	2⅞	2¼	2⅞	
IntThr			582	⅞	5-16	⅞	+1-16
[illegible]							
PennEC	.80	9	37	21⅞	21	21⅞	+ ⅛
PhilLD	.14e	5	478	11⅞	11⅝	11⅝	− ⅛
PitDsm	.80	15	8	31¾	31½	31½	
Plbwy A	.70	12	25	28⅞	28	28⅞	− ⅛
PlyGem	.12	15	83	8½	8⅞	8⅞	
Presd A	.10		251	6⅞	6⅞	6⅞	+ ⅛
PrcCm s			62	3⅞	3⅞	3⅞	
Prism		10	328	3⅞	3⅞	3⅞	+ ⅛
ProMed	.42a	9	6	5	5	5	
−R−R−							
[illegible]							

NASDAQ NATIONAL MARKET

3pm prices May 23

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
WmSon s		28	122	38½	37½	37½	
WilmTr 1.44		11	93	38½	38	38½	+ ½
WiserO .40		25	95	18⅝	18⅝	18⅝	− ⅛
Wolohn .28b		10	86	18¼	18	18¼	+ ½
WrlvExp			2095	6⅛	7⅞	6	− ⅛
Wolv wt			687	3½	3	3⅛	− ½
Worthg .60		16	788	23⅞	23½	23⅞	+ ⅛
Wyman .60			1072	14⅞	14	14¼	+ ⅛
−X−Y−Z−							
XL Dta		6	91	11	10¾	11	
XOMA			7082	26	23¾	25¼	+1½
Xicor			1636	3⅞	3⅛	3⅞	
YanEnS 1.14e		12	72	19½	18⅞	19½	+ ⅛
YelowF .76		61	926	29⅛	28⅞	28⅝	− ½
YorkRe		24	2247	u16½	15⅝	16	+ ⅝

AMERICA

Dow takes its cue from Tuesday's performance

Wall Street

A MIXED performance on Tuesday and further evidence of a weakening economy had equities on the defensive yesterday and the market posted modest losses at midsession, *writes Janet Bush in New York.*

At 2pm, the Dow Jones Industrial Average was 9.73 lower at 2,842.50 on moderately active volume of 102m shares. The higher volume seen over the last two sessions – with more than 200m shares traded on Tuesday – suggests that buyers and sellers are battling it out relatively equally, and that the market trend could turn in either direction.

The market yesterday took its cue from Tuesday's performance when the Dow first surged 25 points and then plunged back into negative territory before recovering to close 7.55 points higher at 2,852.23. In the end, this gave neither bulls nor bears much support.

Technical analysts tended to take a rather negative view of the market. Both the Dow Jones Transportation Average, a good short-term market indicator, and the Dow Jones Utilities Average performed poorly.

While the Industrial Average has been reaching successive record highs, the Transportation index has started to falter and diverge from the DJIA, a sign of some trouble ahead, according to some analysts. The Utilities Average should have responded more positively to strength in the bond futures market on Tuesday but didn't, another worrying sign.

Mr Newton Zinder, technical analyst at Shearson Lehman Hutton, said in his daily commentary: "All in all, a somewhat disappointing showing though not necessarily an indicator of a quick decline. It probably indicates a maturing advance where gains will be harder to come by."

The outperformance recently of the Dow Jones Industrial Average suggests that portfolio managers, who have a great deal of cash at their disposal and are uncertain about the outlook for the broad market, have tended to stick to blue chips.

However, blue chips were mixed yesterday morning. AT & T dipped $⅛ to $43⅛, Philip Morris was down $⅛ to $44⅞ and International Paper fell $⅜ to $51⅞. In contrast, Coca-Cola added $⅜ to $44¼ and IBM gained $⅞ to $118⅞.

Technology stocks, which have led the market's rise to record highs, continued to gain yesterday. Apart from IBM, Compaq Computer jumped $2½ to $121⅞, Digital Equipment added $⅜ to $92⅛ and Motorola gained $⅛ to $80¼.

Precious metals stocks were featured yesterday amid reports of substantial gold sales by Middle Eastern investors. Battle Mountain was down $⅜ to $13½, Homestake Mining slumped $1⅛ to $18⅜ and Newmont Gold dropped $2 to $43.

Citicorp dipped $⅜ to $23⅜ after Moody's Investors Service, as widely expected, downgraded its credit ratings on the bank holding company and its Citibank subsidiary, including its commercial paper ratings. Commercial banks, many of which are suffering from weak real estate loan portfolios, were generally lower yesterday. JP Morgan dipped $⅜ to $36⅞.

Among other featured issues was House of Fabrics which gained $⅜ to $22½ after reporting a jump of nearly 61 per cent in its net income in the first fiscal quarter compared with a year ago.

Canada

A DROP on Wall Street due to profit-taking and a sharp fall in bullion prices weakened Toronto stocks across the board at midsession. The composite index tumbled 26.0 to 3,514.5 on volume of 14.31m shares. Declines led advances 301 to 196.

Among gold shares, Placer Dome fell C$1 to C$19¼, American Barrick slipped C$1⅜ to C$22, Corona eased C$⅜ to C$8⅜ and Lac Minerals dropped C$⅜ to C$12¼.

EUROPE

Pre-holiday boost for continental bourses

THE APPROACH of today's Ascension Day holiday seemed to inspire most bourses yesterday, some of them despite shorter periods of trading, *writes Our Markets Staff.*

PARIS had a busy morning as foreign and domestic investors scrambled to buy particular stocks at the start of the new account but trading drifted off in the afternoon as Wall Street opened lower and as traders went home early. The CAC 40 index closed 8.34 better at 2,123.00, reaching a high of 2,141.13 in turnover estimated at around FFr3.5bn.

Lafarge, the subject of much speculation, rose FFr3.9 to FFr478.90 with 328,982 shares changing hands; it has reported first quarter turnover growth of 28 per cent. LVMH rose FFr110 to FFR4,590 in unusually high turnover of 21,790 shares, as investors returned after a selloff some weeks ago.

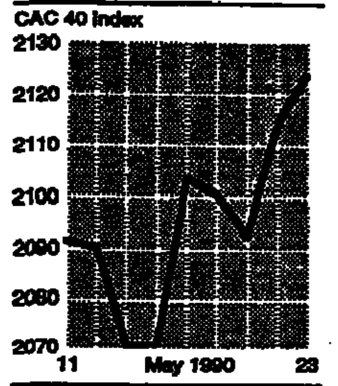
Rhône Poulenc certificates rose FFr6 to FFR421, with 230,325 shares traded, on heavy buying by Warburg's French subsidiary Bacot-Allain. Warburg analyst David Jones says the current price has fully discounted Poulenc's poor outlook for 1990, regarding its chemicals operations and its exposure to Brazil, and that the stock is looking cheap on 1991 prospects.

Suez rose FFr4 to FFr476.50 with 211,600 shares traded, after a block of 2m shares was crossed after the official close on Tuesday. Elf was FFr4 higher at FFr730, before a news conference at which it announced an oil production accord with the Soviet Union.

FRANKFURT followed up on the recovery which started midway through Tuesday's session as domestic, and mainly institutional investors bought primarily into the big blue chip stocks, choosing to disregard worries about interest rate prospects.

France

CAC 40 Index



Two members of the Bundesbank's Central Bank Council had been seen to suggest that bond yields could go higher over the next 12 to 18 months. However, the Bundesbank president, Karl Otto Pöhl, said that German reunification would not lead to a high inflation risk: "If German prices remain stable . . .and I assume this to be so, long term prospects for lower interest rates are certainly more favourable," he said.

In the end, the Bundesbank's average bond yield fell two basis points to 8.97 per cent yesterday; equities rose faster, the DAX index closing 18.54 higher at 1,831.80 after a 12.37 rise to 776.99 in the FAZ at midsession. Volume rose from DM7.1bn to DM8.2bn but there was selectivity among the blue chip buys.

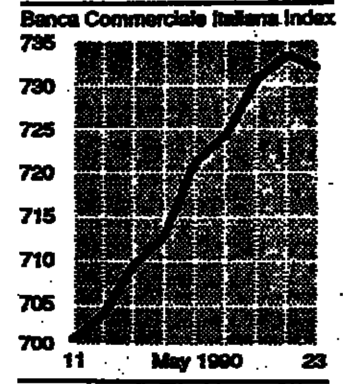
Deutsche Bank jumped DM9.50 to DM776.50 and Volkswagen DM12 to DM592.50. However, Siemens was only DM3.40 better at DM725.40, following its net fall of DM9.50 on Tuesday following a cautious briefing for analysts on earnings growth prospects; and Daimler, not a critical success following poor results and a cautious forecast, rose DM4 to DM820.

AMSTERDAM yawned as the Dutch central bank had cut the short-term money market rate to 7.8 per cent from 7.9 per cent; few operators wanted to take positions yesterday. The CBS Tendency Index closed 0.1 higher at 119.1. KLM, the national airline, eased 60 cents to FL 31.90 after reporting a nine per cent drop in provisional 1989/90 net profit, in line with expectations.

But the insurance and banking sectors were generally firmer, with NatNed rising 20 cents to Fl 76.00 while Aegon, which has been strong recently, fell 20 cents to Fl 123.60. NMB rose Fl 1.40 to Fl 54.50.

Italy

Banca Commerciale Italiana Index



MILAN took a breather after its recent gains. But dealers noted that volumes were still relatively high, estimated at just under L400bn, and reported continued buying interest from abroad. The Comit index fell 1.61 to 731.72.

Among featured stocks, CIR closed L73 lower at L5,615 after the company denied a newspaper report that it had already sold its 15 per cent stake in Société Générale de Belgique for L1,200bn. In the insurance sector, SAI rose L390 to L19,090 on speculation that the group might be restructured. Food stocks were in demand, with SME adding L95 to L4,185 and Eridania up L10 at L9,900.

ZURICH was inspired by foreign performance, a strong Swiss franc and an improving domestic undertone. The Crédit Suisse index rose 6.1 to 636.8 and volume was fairly heavy for an abbreviated session.

Winterthur added SFr50 francs to SFr3,780. After close, it announced higher profits, a dividend increase and equity issues, to raise over SFr700m, which will allow foreign investors restricted entry into its registered shares.

STOCKHOLM also dealt in high volume, SKr398m, although the bourse closed two hours early; the Affärsvärlden general index closed 8.6 higher at at 1248.3. BRUSSELS saw the cash index 18.84 better at 6153.76 and volume was BFr950m, the highest in two months.

OSLO was pulled lower by falling prices for North Sea oil before today's holiday. The all-share index closed 1.81 points down at 645.03 in turnover of NKr263m. Banking was the only sector to buck the lower trend, with the index ending 0.33 higher at 181.87.

Oil dulls the bloom of Oslo's performance

Karen Fossli compares the performances of the Nordic stock exchanges this year

NORDIC stocks have seen a sharp upsurge in the past three weeks, but this has been a case of recovery, rather than growth. The Nordic index declined in April for the second consecutive month – by 2.9 per cent, following a 1.3 per cent fall in March. Since January, the index had fallen by 3.7 per cent, according to the latest official statistics compiled by the Oslo bourse on behalf of the four Nordic countries' stock exchanges.

The Oslo bourse, one of last year's top performers, stayed healthy during the four-month period, registering a 12.8 per cent gain, in contrast with declines of 5.1 per cent in Helsinki, 1.5 per cent in Copenhagen and 8.2 per cent in Stockholm.

Much of Oslo's success can be attributed to the improvement in Norway's oil-dependent economy, which has struggled to stage a comeback since 1986, when world crude oil prices plumbed their lowest levels in a decade.

The progress in liberalising the country's financial markets, aimed to to encourage inward investment, has also added to confidence.

For the month of April, however, only Stockholm's Affärsvärlden general index managed an increase. The Swedish Riksbank's decision to lower the discount rate by 1 percentage point to 11 per cent aided Stockholm's slight recovery. The Affärsvärlden was also able to look ahead to the prospect of the Swedish Government halving a 2 per cent turnover tax by 1991.

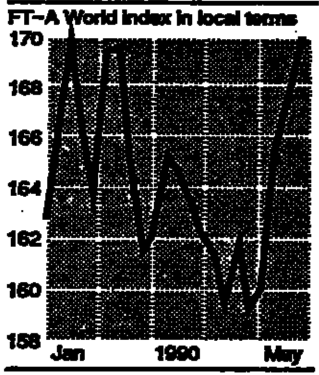
In April, Helsinki fell by 6.4 per cent, Oslo by 5.1 per cent and Copenhagen by 1.5 per cent. Helsinki's weakness was tied to the deterioration in Finland's economy, as the rate of inflation continued to rise and its trade deficit widened; however, it reversed its trend last week as high interest rates began to come down and the FT-Actuaries Finland index rose by 5.8 per cent.

Oslo's fall last month seems to emphasise the Norwegian economy's close association with world crude oil prices, which fell nearly $4 a barrel to less than $15 a barrel during the month. The fall was due to a market surplus of oil, attributed to above-quota production by OPEC members.

Stockholm had the highest turnover in shares in April, although it fell to $1.03bn from $1.38bn in March. The combined Nordic turnover of stocks in April declined even faster, to $2.57bn from $4.56bn a month earlier.

Nordic

FT–A World index in local terms



Since the beginning of 1990, total turnover has been $16.71bn, with Oslo the biggest contributor at $5.73bn; Stockholm put in $5.19bn.

Oslo was the most liquid of the four Nordic bourses for the fourth consecutive month, turning over 29.2 per cent of its market capitalisation in April. However, this was less than 50 per cent of the March figure, when it turned over 60.1 per cent of its market capitalisation. Combined liquidity of the four bourses fell in April to 14.1 per cent from 24.3 per cent in March.

Oslo has also had the highest value of share issues since the start of the year – raising $601m, followed by Copenhagen with $506m. The four Nordic exchanges combined have raised $1.285bn since the start of the year.

In April, Stockholm had a market value of $112.059bn – the highest of the four stock markets – with Oslo the lowest at $28.026bn. Combined, the market value of the four indices in April reached $210.03bn.

● Swedish investors' appetite for foreign shares abated in April, AP-DJ reports from Stockholm. The Riksbank, Sweden's central bank, said Swedes bought SKr4.88bn worth of foreign shares in April, down from SKr10.58bn in March, but up from SKr2.62bn in April last year. Swedish investors have bought SKr25.31bn worth of foreign shares in the first four months this year, more than double the SKr9.94bn during the same period last year.

ASIA PACIFIC

Firm yen pushes Nikkei through 32,000 level

Tokyo

SHARE prices gave a strong performance yesterday, with the Nikkei breaking decisively through the 32,000 level as overnight strength on Wall Street and a firm yen encouraged investors to buy across the board, *writes Michiyo Nakamoto in Tokyo.*

The Nikkei average saw a low of 31,989.73 just after the opening and then spurted up to an intraday high of 32,316.78 in early afternoon trading, finally closing 238.21 higher at 32,176.51. Advances led declines by 584 to 356 with 185 unchanged, and volume rose to 650m shares from 500m on Tuesday. The broad-based Topix index posted a modest gain of 4.36 to 2,394.95 and, in London, the ISE/Nikkei index rose 7.89 to 1,793.71.

But analysts were still wary. "It's an elusive market," said Mr Masami Okuma at UBS Phillips & Drew. Investor interest has been fickle recently, split between highly priced, high technology issues on the one hand, and big companies which benefit from domestic demand on the other.

Yesterday saw mixed interest in heavy industries and high tech stocks. Mitsui Engineering and Shipbuilding topped the volumes list with 24.2m shares and gained Y4 to Y958. Kawasaki Heavy Industries rose Y5 to Y930 in active trading. Among high tech issues, Sony succumbed to profit-taking, and closed down Y100 at Y8,700.

Meanwhile, special situations flourished, even among electricals. Sanyo gained Y27 to Y956 after it forecast 11 per cent growth in pre-tax recurring profits for the current business year. Other issues with good earnings prospects were pursued as the results season continued. Mitsumi Electric rose Y90 to Y1,580 on expectations that its earnings in the term to March, 1991 would exceed projections.

Taiyo Yuden gained Y80 to Y1,590 on reports that it has developed equipment which prevents cancer associated with electrical cable. Rumours in Tokyo had it that the reports had been circulating in New York, where they had triggered buying in the issue among foreign brokers.

NGK Spark Plug was another individual selection, on expectations that its recurring profits would rise to a record high in the year to next March. It was also favoured for its involvement in the protection of the environment as it produces automotive exhaust gas sensors. NGK Spark Plug advanced Y50 to Y1,640.

In Osaka, broad-based buying took the OSE average 232.07 higher to 34,819.42. Volume rose by 2m shares to 61.7m. Izumi, a supermarket operator in southern Japan, surged Y220 to Y2,320 on rumours of buying by a speculative group.

Roundup

DOMESTIC politics governed the region once again, with Hong Kong rising on reports that China will retain its preferential trading status with the US and Manila falling as terrorists set off bombs and killed a senior army officer.

HONG KONG surged 1.9 per cent in the heaviest trade for nearly four months on overseas buying in what appeared to be a delayed response to reports that the US will renew China's Most Favoured Nation status. The Hang Seng Index soared 57.44, its best daily gain since late February, to 3,028.31. Turnover swelled to HK$1.92bn from HK$1.19bn.

MANILA fell as renewed terrorist activity prompted panic selling. The composite index fell 29.64 to 878.36, down 3.26 per cent. San Miguel Corp, the country's largest food and beverage conglomerate, fell 3 pesos to 65 pesos following its poor results and planned higher taxes on beer.

AUSTRALIA saw shares in Australia and New Zealand Banking Group (ANZ) rise on news that the government had rejected its planned merger with National Mutual.

ANZ was also buoyed by better-than-expected interim results. The stock closed 20 cents higher at A$4.90 with 1.5m shares traded. The All Ordinaries index rose 8.3 to 1,473.7. Turnover eased to 67m shares or A$147m from 65m shares or A$114m.

NEW ZEALAND was firmer. The Barclays index closed 4.52 up at 1,739.38. Turnover eased to 11.3m shares or NZ$16.1m from 9.8m shares or NZ$18.8m. Bank of New Zealand closed steady at 79 cents on volume of 1.6m shares before its results on Thursday.

TAIWAN rebounded after five days of declines. The weighted index rose 294.08 or 4.38 per cent, to 7,014.40. Turnover rose to 1.19bn shares or NT$76.45bn from 900.7m shares or NT$57.87bn.

SINGAPORE fell on profit-taking. The Straits Times index lost 5.64 to 1,572.95. Government statistics indicating that the economy would grow at the high end of the officially estimated 6 per cent to 8 per cent range this year was countered by continued concern about price and wage pressures. KUALA LUMPUR was slightly firmer. The composite index rose 2.24 to 583.63. SEOUL rose for the third day in a row in moderate trading. The composite index added 1.98 to 787.91.

SOUTH AFRICA

GOLD shares closed lower after a sharp fall in the bullion price to $363.25. Vaal Reefs closed R10 down at R313 while De Beers lost R3.25 to R101. The all-gold index fell 49 to 1,629 and the overall index eased 33 to 3,181.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY MAY 22 1990						MONDAY MAY 21 1990			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (81)	132.07	+1.2	115.76	114.59	+0.8	6.06	130.56	114.47	113.67	158.31	125.85	138.33
Austria (19)	235.52	−0.1	206.43	204.35	+0.4	1.32	235.78	206.72	203.48	285.63	193.15	113.34
Belgium (61)	148.12	−2.0	129.83	125.84	−1.4	4.68	151.08	132.46	127.61	160.02	132.11	126.96
Canada (120)	135.36	−0.3	118.65	116.94	+0.8	3.45	135.82	119.08	116.01	153.61	130.37	136.50
Denmark (33)	257.13	+1.6	225.38	222.51	+2.0	1.29	252.99	221.81	218.07	260.82	236.69	171.72
Finland (26)	138.94	−0.5	121.78	114.52	−0.1	2.39	139.63	122.42	114.68	152.29	129.99	140.65
France (125)	166.52	+0.5	145.95	146.80	+0.8	2.80	165.63	145.22	145.63	168.85	141.69	112.91
West Germany (93)	128.28	−1.2	112.44	111.31	−0.9	2.01	129.89	113.89	112.34	137.71	122.05	79.56
Hong Kong (48)	123.37	+1.4	108.13	123.24	+1.4	5.05	121.65	106.66	121.57	126.90	112.24	129.98
Ireland (17)	182.21	−0.3	159.70	159.81	+0.0	2.74	182.71	160.19	159.75	198.57	172.72	137.29
Italy (96)	106.43	+0.4	93.29	97.41	+0.6	2.45	106.00	92.93	96.82	106.43	91.85	75.47
Japan (454)	152.79	+2.3	133.92	146.36	+1.0	0.57	149.30	130.90	144.86	197.26	124.40	178.77
Malaysia (35)	230.48	+1.1	202.01	240.11	+1.2	2.24	228.00	199.90	237.26	245.32	204.15	182.40
Mexico (13)	504.10	+0.4	441.84	1562.26	+0.0	0.33	501.92	440.06	1562.62	504.10	324.53	214.76
Netherland (43)	141.49	+1.2	124.02	121.15	+1.5	4.65	139.80	122.57	119.32	145.66	130.43	112.31
New Zealand (17)	62.63	−1.0	54.90	58.01	−1.0	7.58	63.27	55.47	58.60	75.36	59.57	68.34
Norway (23)	243.74	+0.9	213.64	213.05	+1.0	1.49	241.52	211.76	211.04	245.90	202.34	181.41
Singapore (25)	207.14	+0.3	181.56	176.98	+0.3	1.86	206.50	181.05	176.38	207.14	179.70	158.69
South Africa (60)	190.77	−2.0	167.21	166.47	−0.8	3.57	194.58	170.60	167.79	251.39	173.80	128.44
Spain (42)	160.78	−0.3	140.92	126.68	+0.2	4.19	161.31	141.43	126.48	165.19	132.84	148.24
Sweden (35)	202.14	+0.1	177.18	181.65	+0.2	2.22	202.00	177.11	181.22	206.95	173.89	157.57
Switzerland (66)	100.73	+1.1	88.29	88.58	+0.8	2.33	99.60	87.32	87.84	102.05	88.75	68.53
United Kingdom (305)	157.92	+1.4	138.42	138.42	+1.4	4.82	155.76	136.56	136.56	164.31	139.87	139.89
USA (537)	144.85	+0.2	126.96	144.85	+0.2	3.37	144.63	126.81	144.63	145.40	130.61	129.82
Europe (984)	145.74	+0.5	127.74	126.58	+0.7	3.56	145.00	127.13	125.74	146.66	135.57	112.99
Nordic (117)	200.78	+0.8	175.98	170.00	+1.0	1.77	199.27	174.71	168.30	201.89	185.01	150.30
Pacific Basin (680)	150.96	+2.2	132.32	144.17	+1.0	0.88	147.64	129.44	142.71	192.75	124.63	174.99
Euro – Pacific (1644)	149.24	+1.6	130.81	137.52	+0.9	1.94	146.96	128.84	136.32	174.18	130.35	150.20
North America (657)	144.18	+0.1	126.37	143.00	+0.2	3.37	144.00	126.25	142.73	145.78	131.02	130.13
Europe Ex. UK (679)	136.71	+0.0	119.82	119.06	+0.2	2.77	136.74	119.89	118.78	139.50	124.81	96.30
Pacific Ex. Japan (206)	128.49	+1.0	112.62	116.01	+0.9	5.24	127.17	111.50	115.02	139.32	122.53	129.52
World Ex. US (1837)	149.38	+1.4	130.93	137.49	+0.9	2.01	147.25	129.10	136.32	173.77	131.90	149.55
World Ex. UK (2069)	145.55	+1.0	127.57	139.98	+0.5	2.22	144.16	126.40	139.23	162.00	130.80	141.67
World Ex. So. Af. (2314)	146.37	+1.0	128.29	139.60	+0.6	2.46	144.88	127.02	138.73	161.84	131.95	141.59
World Ex. Japan (1920)	144.90	+0.3	127.01	136.60	+0.4	3.51	144.49	126.69	136.08	145.52	134.62	123.80
The World Index (2374)	146.64	+1.0	128.52	139.78	+0.6	2.47	145.18	127.29	138.93	162.05	132.25	141.50

Latest prices were unavailable for this edition. Constituent change 23/5/90: Deletion: Federal Pioneer (Canada).

SECTION III

FINANCIAL TIMES SURVEY

Industrial and commercial life has been transformed in the Ozal era. For two years, there have been large balance of payments surpluses. But there is still concern about human rights abuses, and inequalities of income have grown worse, writes **Jim Bodgener**

A change in mentality

TURKEY HAS weathered perhaps the most eventful decade of the republic's 67-year history. In the past 10 years, the country has travelled a long way towards a democratic society and free market system from martial law and economic stagnation.

All this has been achieved under the leadership of President Turgut Ozal, until his election last November premier and head of the ruling Motherland Party (ANAP) since the return to civilian rule in 1983. Though ANAP's popular support has waned, Mr Ozal can still claim some credit for a period of frenetic infrastructural development and economic change without regressing to a more repressive political regime. Fittingly, he is only the second of the republic's eight presidents since the great nationalist leader Mustafa Kemal Ataturk not to come from a military background, and the first to emerge from the hurly-burly of party political politics.

Though there has been gerrymandering of the electoral laws, political leaders who presided over the descent into anarchy in the later 1970s have been permitted practically free rein, including the President's arch-rival on the right, the veteran politician and thrice-premier, Mr Suleyman Demirel. Should ANAP be forced into general elections, Mr Demirel may even be able to make a comeback at the head of his True Path Party, given the internal divisions of the main opposition Social Democratic Populist Party.

Viewed from abroad, however, the downfall of repressive and authoritarian regimes in eastern Europe and the Balkans has thrown Turkey's lesser deficiencies into sharper relief. Human rights abuses continue, one of the chief impediments to EC entry. According to Amnesty International and other human rights agencies, torture is still systematically practised by the police, an ingrained callousness requiring not only judicial correction, but wholesale re-education.

By mid-May, significant progress had yet to appear on promises for a Human Rights Commission in parliament, and protracted cabinet debates on articles in the penal code banning communist or religious parties.

On the other hand, the very loosening of authoritarianism may have unleashed volatile forces building towards a point of shear, as the process of convulsive change and modernisation in Turkish society intensifies. Increasing trade union militancy, campus demonstrations, and murders claimed by Islamic fundamentalists of prominent secularists earlier this year may be taken as warnings that the 10-year cycle of military interventions since 1960s is in train once more. However, the military has not yet overtly stepped back into the political arena.

The Ozal era has definitely wrought a change in mentality in the industrial and commercial community, and especially in the banking sector, gingered up early on by foreign competition. No longer are businessmen cowed under insular and restrictive controls, and industry is far more resilient and able to adapt quickly to fluctuations in demand. On the other side of the coin, protectionist barriers remain despite sweeping liberalisation of imports since last summer.

The most telling achievement in turning round an insular, command economy is the large balance of payment surpluses for the past two years running, an enviable feat for any developing country. International creditor confidence in Turkey has never been so good, reflected in narrowing spreads on medium and short-term borrowing. On present trends, external debt servicing is manageable.

The healthy external account in itself might appear to be a vindication of the structural adjustment policies adumbrated with World Bank and IMF-tutelage in Turkey under Mr Ozal, were it not for perennially high inflation and widening budget deficits.

For the political opposition, the latter are the natural consequence of subordinating the domestic economy to the goal of securing international convertibility for the Turkish lira. However, Turkey's Western mentors say the structural adjustment programme went awry in overspending during the election year of 1987, and that in ANAP's political exigencies, economic good sense has been abandoned for the purchase of votes.

Perhaps a fundamental flaw of the structural adjustment model is that it is inflexible when it comes to political realities in a developing country. There seems little point in restructuring an economy if the broad bulk of the population winds up poorer than before.

In real terms, investment in new productive capacity in industry is lower at the end than in the middle of the decade, and, apart from taking up the slack from the downturn at the end of the 1970s, not many new jobs have been created. Little substantive progress has been made despite enthusiastic official rhetoric about an ambitious privatisation programme, and the drain on budgetary resources of the state economic enterprises remains.

During the Ozal era the foundation of industrial expansion in the 1990s has been established. Energy and communications have been at the fore; Turkey has enjoyed an electricity generating surplus for several years, though this is explained partly by depressed economic growth recently. Imported Soviet natural gas is a more efficient and cleaner fuel for industry and homes than the foul-burning lignite (brown coal). A network of new toll motorways – though the World Bank disputes their necessity – is under construction. And the Government proudly boasts that villages throughout the country have access to a telephone.

Yet being able to dial London or New York from a remote location in south-eastern Turkey hardly compensates for the most telling failure of the past decade, that inequalities in the distribution of income have grown worse. The most vulnerable are Mr Ozal's fondly named "central pillar" of waged or salaried workers.

At the same time, the population of around 55m is growing at a rate of between 2-2.5 per cent a year. What that means is an increasingly "young" population seeking more choices and better rewards as their horizons widen. Population expansion informs the ANAP argument that Turkey has to maintain high growth to stay ahead of social turmoil.

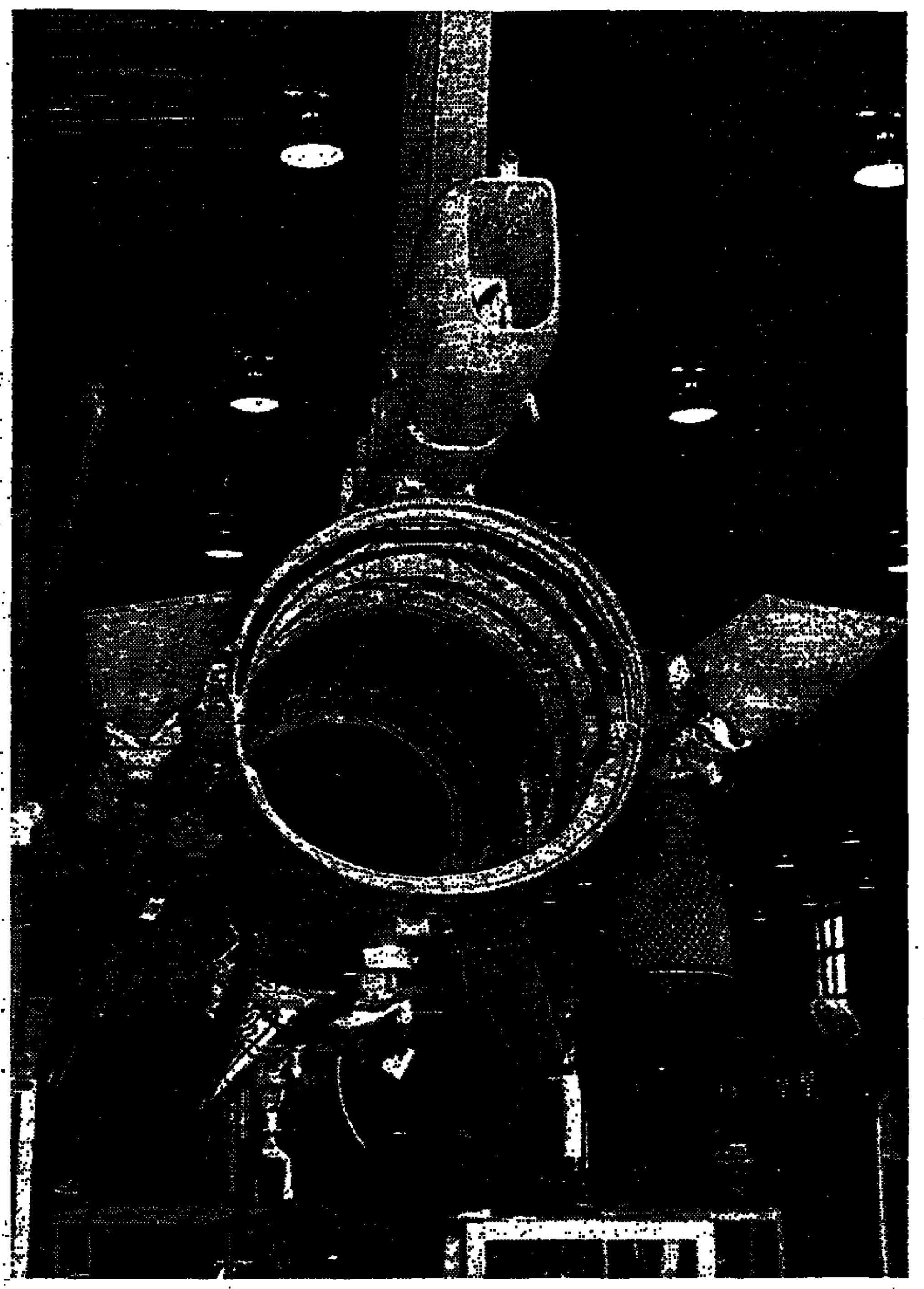
Unequal income distribution and high population growth is concentrated most in the underdeveloped, predominantly Kurdish south-east. Economic frustration borne of years of neglect is exacerbated by repression of Kurdish minority aspirations, which has led to the six-year insurgency of the Marxist, separatist Kurdish Workers Party (PKK). On top of this, the the region, bordered by Syria, Iraq and Iran, is politically sensitive. That has deterred international aid flows to the vast, ambitious south-east Anatolian (GAP) development project through which the Government hopes to bring the south-east closer to the level of the urbanised and industrialised West.

With these cross-currents and the contradictions between modernity and the old ways in Turkish society, where even the secularist tenets of Kemalism appear out-of-date against invading Western pluralism, to a confused people Islam stands as a rock of certainty. Funds and proselytising have come from Middle East neighbours, especially Iran, and the military themselves to some extent encouraged religion as a bulwark against communism. But essentially the resurgence of Islam, the new mosques and Koranic schools sprouting in city and hamlet alike, are symptomatic of deep trauma in a society already immensely heterogeneous in religious belief and ethnicity.

This is as much true of men in *koy* (village) or *gecekondu* (urban squatter slum) clubbing together to build a mosque as the young girl student defiantly flaunting a headscarf as a mark of dignity in womanhood. A stable synthesis between modernity and Islam in Turkey would indeed be the most significant achievement of the Ozal era.

As people in government from Mr Ozal down repeatedly observe, Turkey has attempted to telescope progress towards a Western industrialised society – achieved in Europe over two or three centuries – into only a few decades. Though entry into the EC might not be of critical moment for the broad majority of the population, the polite but indefinite deferral of Turkey's full membership application last December by the EC Commission was intensely disappointing in its lack of encouragement for Turkey's leaders. The danger is that the application could become a dead letter, used by either side merely as a lever to extract concessions.

"We are not European," says a young Turkish executive in Istanbul earnestly. "But we are not Middle Eastern either. It is late to go in search of an identity." The next decade may decide that.



F16 fighter aircraft under construction at Turkish Aerospace Industries' Murted, Anatolia, plant

TURKEY

IN THIS SURVEY

Photographs for this survey: Terry Kirk
Editorial production: Gabriel Bowman

INTERVIEW WITH TURGUT OZAL

The role of the presidency

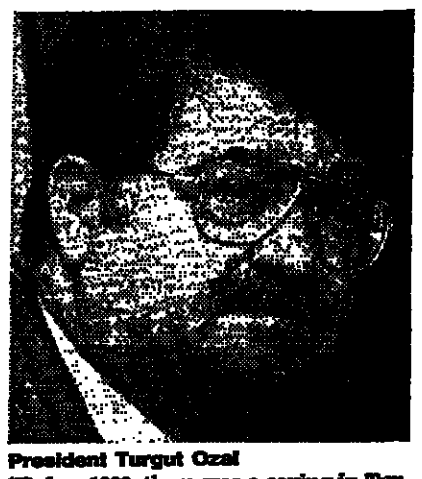
SIX MONTHS after his election in late October, President Turgut Ozal clearly relishes the cut and thrust of politics as much as ever.

Yet he denies any intention to change the role of the presidency against opposition charges that its impartial position in the constitution is being jeopardised. That is up to parliament, he stresses. "The role of a president today (as framed by the 1982 constitution) is much more pronounced than in the 1961 constitution," says Mr Ozal, "and I see the responsibilities and powers of the president as sufficient."

Looking back on the past decade, for much of which he was premier, Mr Ozal sees it as a period of substantial change, both in terms of the economy and of democracy. In the economy, Turkey has solved its century-old balance of payments problem, he says. Today, as a share of exports, industrial goods have risen to 82 per cent compared with only 35 per cent in 1980.

Internally, Mr Ozal points to the urbanisation rate, which rose over five years by almost 10 percentage points to 52 per cent according to the 1985 census, and today is estimated to have reached 65 per cent. This is the highest growth since the republic was established in 1923. "And in 1950 Turkey was only 25 per cent urbanised. It was a very poor country," says Mr Ozal.

According to Mr Ozal, his governments wrought a profound change in the mentality of the Turkish people.



President Turgut Ozal

"Before 1980, there was a saying in Turkey, 'We cannot do it, only Europeans or Americans can do that' – I mean, any industrial or construction projects – that attitude is gone for good."

As for democracy: "Certainly, we have not reached the standards of Europe or the western world, because it took you maybe 200 years to come to this point." In Turkey, democracy had flowered comparatively recently, only in the past 45 years. And in the past 10, there had been significant progress. Mr Ozal says he would not be worried if bans on the formation of communist or religious parties were lifted.

If the balance were to be weighed in press reporting and opposition criticism compared with the UK, Turkey would not be found wanting. "And then they say this country has no democratic standards, or very low democratic standards."

On allegations of human rights abuses such as those contained in a recent Amnesty International report, Mr Ozal says: "They don't come here to study, they only take reports from people who are against Turkey."

Turkey's position in Nato with the changes in eastern Europe and the lowering of tension in the region is clearly of concern to Mr Ozal. "We should not be in a hurry to change the role of Nato," he says. "We have to be sure what is going on in eastern Europe."

He is in no doubt that Turkey has a head-start on eastern Europe as far as EC entry is concerned. "We started the free market system much earlier than eastern Europe," he maintains. "Those countries will take a lot of transformation even to approach the Turkish level."

Following the decision by the EC Council to defer consideration of Turkey's full membership application until after 1993, Mr Ozal does not know when negotiations will start. But he also says that relations with the EC will also improve, as recommended by the Commission last December, an indication perhaps that Turkey will settle for less in the meantime.

"It looks like we might get a Customs Union with the European Community by 1995 or 1996," says the President. "This is a very important step. It will give quite a big impetus to Turkish development and foreign investment, and also the preparation of Turkey for the European Community in the future."

Jim Bodgener

David Barchard on the political outlook

Ozal means to stay

IF Mr Turgut Ozal, the eighth president of the Turkish Republic, has a message for his fellow countrymen, it is that they must get used to him. It was a message Mr Ozal gave the public when he was elected last autumn and he renewed it in a recent statement.

Mr Ozal's presidency is inevitably controversial. Turkey has not had a head of state drawn from a political party for three decades. Recent presidents have gained public acceptance by that touch of unworldliness which goes with being a senior army officer. But Mr Ozal means to stay.

In the two previous elections, 1973 and 1980, the civilian political parties found it virtually impossible to reach agreement on a suitable candidate. But three years of military rule after 1980 seem to have stiffened public opinion, so when the Grand National Assembly sat down last October to elect a head of state, it was inevitable that it would choose a civilian.

It was not that clear that Mr Ozal would be its choice. The Turkish presidency is not an executive position and the head of state is constitutionally debarred from having any links with a political party. Mr Ozal, whose Motherland Party is trailing a poor third in local elections and the opinion polls, might have opted for a consensus candidate, selected with the approval of the opposition parties.

Instead Mr Ozal – listening, it is whispered in Ankara, largely to the advice of his immediate family – chose the bolder path of using his parliamentary majority to push through his own candidacy on the third ballot, knowing full well that the opposition parties would boycott the vote and not recognise him as head of state.

It is an open secret that the president relies heavily on the advice of his wife, Semra, a formidable lady who smokes cigars, and his eldest son Ahmet, a US-trained banker. There are plenty of advisers from outside the family, but they have less weight.

Both Mr Demirel's True Path Party and the Social Democracy Populist Party say they will impeach Mr Ozal and bring him down if they win the next elections. But till then, there is virtually nothing they can do. Meanwhile, Turkey has a new-style presidential regime which contrasts strongly with the pattern, set in Ataturk's time and adhered to ever since, of a strong prime minister in parliament and a relatively backstage role for the head of state. Those who believe that Ataturk instituted this pattern of government in order to make a break with the absolutism of the Ottoman sultans do not approve.

Mr Ozal has been forced to move towards a stronger, more executive presidency because of the divisions inside his own party. When he vacated the prime minister's job, he installed a faithful placeman, Mr Yildirim Akbulut, in the post, hoping that he would be able to hold the ring. But Mr Yildirim has been pilloried by press and opposition and is now expected to hold office only until the Motherland Party meets to elect a new leader next January.

Meanwhile, it is generally acknowledged that the Presidential Palace on Cankaya Hill above Ankara is where the decisions are taken and policies are sketched out. His supporters encourage an image of Mr Ozal watching over the nation from above. Certainly, Mr Ozal appears to have had more time for long-range strategy since November. He has scored some notable successes.

One was to finesse Mr Demirel and Mr Inonu, the men who say they will one day depose him, into a national summit meeting with him to discuss the Kurdish war in the south-east. The opposition leaders could not afford to let the public think they were ignoring the national interest because of squabbles between the parties, as happened in the 1970s in Turkey.

Mr Ozal followed up this stroke with a package of emergency measures which has seriously worried his critics. A decree, not debated by Parliament, has given him and the Motherland Government powers to exile individuals suspected of subversion and much tighter control over the press, including the right (inherited from the military in 1983 but not until now invoked) to confiscate newspaper printing presses. An immediate result has been the disappearance of a number of troublesome opposition magazines printed on the presses of national dailies which cannot afford to take risks with their printing houses.

"I think Mr Ozal is trying to set up a strong executive presidency along US lines, with a two-party system underneath it, and that's bound to be good for Turkey. If the opposition parties don't want to play ball, then that is their look-out," says an American observer living in Ankara.

The opposition parties seem to regard the Ozal presidency as a doomed interlude during which little is to be gained from raising the political temperature too far. It would be easy to do so. Turkey, like other Mediterranean countries, has strong laws against insulting the head of state. A controversial president runs the risk of creating martyrs.

There has already been a spate of incidents involving insults to the President: in one the Social Democrat Mayor of Canakkale in western Turkey was sacked by the Ministry of the Interior for not standing in the presence of Mr Ozal; a move which Mr Deniz Baykal, the Social Democrat deputy leader, describes as primitive and despotic. Episodes of this sort do not bode well for the future.

But Mr Ozal is undaunted. He is a robust figure and has reached his present eminence by consistently taking a pro-active line on events rather than watching them unfold. By appointing General Kemal Yamak, the former commander of the land forces, as his secretary-general in the presidential palace, he has kept open his links to the military and the higher echelons of the bureaucracy: groups which might otherwise be alarmed not only at his personal power, but also at the steady rise in influence of Islamic fundamentalists in government.

NORTHERN CYPRUS

'Now I have no fear'

THE Green Line is clearly visible from the rooftop restaurant of the Saray Hotel in Lefkosa (Nicosia), from the division between the low pantiled roofs and weathered facades of the Turkish side and the gleaming new tower blocks and cranes on the other. It is also the most visible comparison of how retarded the north of Cyprus has been by its pariah status internationally behind the south.

Ties of economic necessity still bind the two, however. Southern Nicosia, for example, still receives about 10,000 cubic metres of water daily from the north, while power plants in the south meet around 80 per cent of the north's energy requirements, though here are often cuts, particularly in winter. And when Nicosia was divided after the Turkish intervention in 1974, the terminus of a new sewage disposal network in Greek quarters was found to have ended up in Turkish Cypriot hands.

However, the north at last is on the verge of awarding a contract to an Austrian and West German consortium to build a 100-MW power station, while on the southern side, World Bank-supported schemes for reservoirs could soon relieve southern Nicosia.

Senior officials in the northern Turkish administration say much of the aid from the World Bank, EC and other international funding agencies that rightfully should have been for the whole of Cyprus has gone to the south.

They claim that between 1974 and 1988, Greek Cyprus received a total of $3.1bn in foreign public and private aid, compared with a meagre $379m for the north, most of which was supplied by Turkey.

Turkish-Cypriot businessmen are determined never again to submit to Greek domination. "When you look at the size of the two communities, we'd be swamped," says the manager of a leading citrus agri-business. "We won't get a fair chance." Owners of smaller businesses and shopkeepers in the picturesque little port of Girne (Kyrenia) facing the Turkish mainland echo these sentiments, despite the fact that per capita income is much lower in the north than the south – though higher than in mainland Turkey.

"From 1963 to 1974, the Greeks were the masters of the island, and we were working for them," says an estate agent, who fled in 1974 leaving property behind in Limassol in the south. "But now after 16 years, I have no fear for the future of my children. Two communities living side by side is good – the Turks where they are and the Greeks on their side."

One name stands out behind the north's drive for self-sufficiency: Mr Asil Nadir, known for the meteoric rise of his Polly Peck International conglomerate, much of whose fortune made in the UK in the 1980s has been ploughed back into the island. Apart from the Government, his companies are the largest employer, from citrus fruits to tourism.

Asil Nadir provided around 75% of UK investment last year

He provided around 75 per cent of all UK investment in northern Cyprus last year, which itself accounted for 25 per cent of all investment. Of the $5.1m invested externally in northern Cypriot resorts in 1988, much came from him. His companies are creating about 1,900 hotel rooms at present.

A settlement is most sought perhaps by the tourism sector. Though prices compare favourably with those in the south, the resorts have to take the brunt of higher air fares since aircraft must touch down in Turkey before flying to northern Cyprus so as not to contravene international air traffic agreements – from which the self-proclaimed Turkish Republic of Northern Cyprus, recognised only by Turkey throughout the world, is excluded.

But the tourists are returning nevertheless, the north's attraction ironically being its distance from the package crowds elsewhere, and its largely unspoilt beaches and scenery.

Tourism earnings of $130m helped to salve a trade deficit of $200m last year. That compares with exports totalling $55m – and with tourism earnings of only $26.6m in 1982.

Last year, a total of 275,000 visitors came to the island, of which 60,000 were from Europe, brought by such reputable European tour operators as West Germany's Neckermann and the UK's Mosaic. The largest contingent came from the UK, then from West Germany, followed by Austria and then Finland. "Last year, we managed an occupancy rate of 52 per cent all year round," says Mr Yalcin Vehit, the manager of the Salamis Bay Hotel.

The north has realised an average growth rate of 4.7 per cent, with 8.1 per cent alone in 1989, say officials. Trade and tourism accounted for 23.5 per cent of gross national product, valued in total at TL835bn ($360m). Agriculture is still the most important activity in the north, although expected to decline to an 11.8 per cent share in 1990 compared with 12 per cent in 1985.

But growth did not generate the high inflation rate of 51 per cent last year, which instead was imported from the mainland through the common currency of Turkish lira. The Turkish presence in the north's economy now runs very deep indeed, and some say could not be displaced in favour of re-union with the south if a settlement is ever reached.

Since 1974, Turkish grant aid has totalled $468.9m, according to an official at the embassy Turkey maintains in Lefkosa. In addition to this, extensive funds have flowed from Turkey's largest and state-owned bank, Ziraat Bankasi (Agricultural Bank). Turkish funds and expertise have built the north's port at Girne, two airports, roads, telecommunications networks and irrigation systems, besides promoting forestry schemes and other technical assistance. In most of the north's state companies there is a commanding Turkish presence.

But even if annual aid levels are still increasing, dependency on the mainland has decreased as the northern Cypriot economy has expanded, at least according to Turkish figures. Only 19.5 per cent of revenues were locally sourced in 1977 compared with 72.4 per cent today. And though 46.7 per cent of imports come from Turkey, 71.6 per cent of exports go to the UK.

Jim Bodgener

David Barchard assesses prospects for a frustrated opposition

Clock may turn back to 1970s

WITH THE ruling Motherland Party consistently coming third in the opinion polls with a bare 15 per cent or less, the prospects for Turkey's main opposition parties ought to be good.

If, as many Turks expect, the Motherland Party is swept away by the next general elections, Turkish politics will become a contest for power between the centre-right True Path Party, led by Mr Suleyman Demirel, six times the country's premier between 1965 and 1980 when he was deposed for the second time by a military coup, and the Social Democracy Populist Party, headed by Mr Erdal Inonu, a former professor of nuclear physics who was drawn into politics after 1983.

This would more or less recreate the shape of Turkish politics before the 1980 coup which deliberately smashed the civilian political system. Throughout the 1970s, Mr Demirel, whose party was then called the Justice Party, confronted a centre-left party known as the Republican Peoples Party, most of which is now inside the SDPP. The two parties were banned in 1981 and attempts to revive them are still illegal. In practice, however, they have reappeared.

The difference between the 1970s and the 1980s is that three years of military rule, followed by seven years of Mr Ozal and the Motherland Party (which first gained power through a dubious election victory held under martial law in 1983) have blurred the fierce polarisation between Mr Demirel and the Social Democrats which paralysed Turkish political life in the 1970s. These days Mr Demirel uses the conciliatory language of the pluralist and appears to be ready for a tactical alliance with his centre-left opponents against Mr Ozal.

Inside the present parliament, the TPP and the SDPP are more or less powerless. In the 1987 elections, a freak of the electoral system used in Turkey gave the Motherland Party two-thirds of the deputies in the National Assembly on just 35 per cent of the popular vote. That is not necessarily the end of the story, as Turkish parliamentarians are notorious for not staying in the party for which they ran. But, despite a handful of defections and the emergence of a group of about 40 openly disaffected Motherland MPs, the party has hung together on key issues.

Opposition leaders Erdal Inonu (left) and Suleyman Demirel

Opposition hopes that deputies will some day defect *en masse* from the Motherland Party to its rivals may yet be fulfilled as general elections approach. That is when deputies are most tempted to change sides if they think their party is going to lose.

Their weakness inside Parliament may explain why neither the TPP nor the SDPP has yet been able to pull decisively ahead of the rest of the pack in the opinion polls. In theory, if the Motherland Party vote collapses, Mr Demirel should be the main beneficiary. As yet, he and the SDPP each seem to command the support of only between 25 and 30 per cent of the voters.

Bedrettin Dalan, a former Mayor of Istanbul, has just formed his own political party

There are several explanations for this state of affairs. One is that both parties are still tainted by the failure of their predecessors in the 1970s. A less savoury explanation advanced by the opposition is that Turkey's constitution and political institutions reflect the fact that they were designed and installed by the military in 1982 and are not fully pluralist in the Western sense.

"Democracy has been depreciated," says Mr Suleyman Demirel, leader of the True Path Party. His main rivals in the Social Democracy Populist Party agree with him. "There isn't real political stability," says Mr Deniz Baykal, the SDPP's powerful secretary-general.

Both Mr Demirel and Mr Baykal would like to see the Government agreeing to hold a set of mid-term by-elections to fill vacant places in the Grand National Assembly. There is no automatic procedure for holding these by-elections but the period when they can be held has now got under way.

Given the Motherland Party's poor showing in the opinion polls, it is very unlikely that there will be by-elections in the near future. One poll this spring gave the Government as little as 8 per cent of the poll. As the election laws, again inherited from the military, require a party to win 10 per cent of the national votes before it can get a single seat in parliament, this could mean that the Motherland Party might not even get into the next National Assembly. Mr Demirel for one sees Motherland as a relic of military rule which is doomed to disappear.

In the short term, however, the Government will almost certainly amend the electoral law to improve its own chances in the polls. If it does so, it will probably pull back into the arena the smaller political parties which played an important and not very happy part in Turkey's politics in the 1970s under proportional representation but were banished from the scene in 1983.

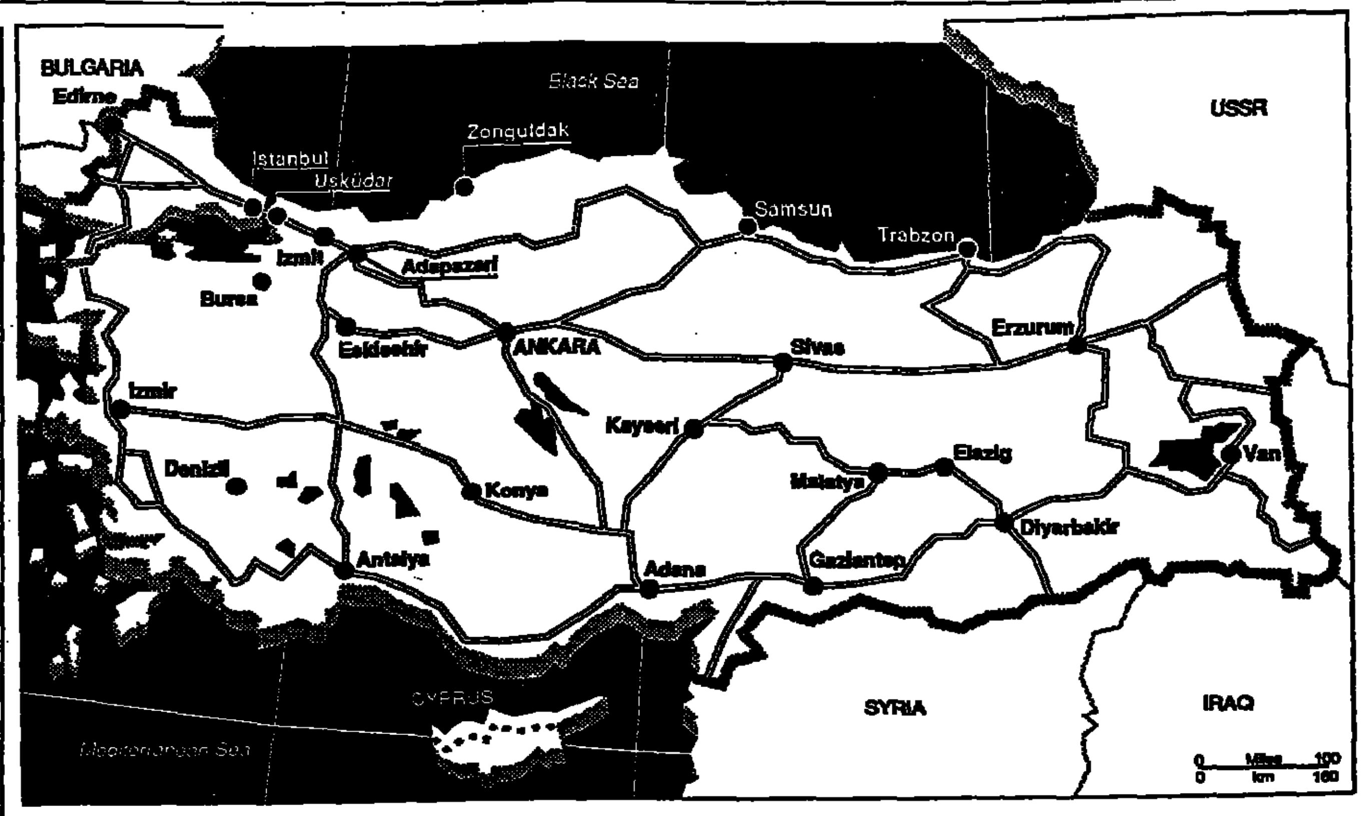
They include the Welfare Party, a hard-line Islamic revivalist grouping which wants to turn Turkey away from the West and towards the Arab Middle East; the National Work Party, a neo-fascist grouping; and the Democratic Leftist Party of Mr Bulent Ecevit, the former prime minister, who has been at odds with his former social democratic colleagues for most of the 1980s but still controls a powerful block of votes.

Since no party looks likely to get an overall majority, the prospect would then be a hung parliament and a coalition government depending on the minority parties: exactly the recipe which brought political disaster in the 1970s.

"If there is a parliament divided between left and right, then Mr Demirel will have to seek his allies on the right," says Mrs Nazli Ilicak, an influential liberal conservative newspaper columnist. "I think that the social democrats and the True Path Party could probably co-operate on points which they are agreed on — for instance bringing Mr Ozal down from the presidency — but after that there would have to be early elections."

Other questions about the opposition centre on its likely policies. Would the Social Democrats rip up the free-market reforms of the 1980s? There seems to be little doubt that they would follow policies which were more inward-looking and less favourable to the free market than Mr Ozal. Mr Demirel too, with a constituency which is largely rural and resents the changes of the last decade, might feel tempted to turn the clock back.

On the other hand, both parties say they are strongly committed to restoring liberal pluralist traditions to Turkey's somewhat authoritarian style of parliamentary democracy.



BUSINESS GUIDE

Exchange rates: Since last year, exchange rates against foreign hard currencies have lagged behind inflation. This year, the Turkish lira is expected to depreciate by some 30 per cent against the dollar. Lira exchange rates as of May 15 were: US \$1 = TL2,515; DM1 = TL1,529; £1 = TL4,228.

Taxis: By law, taxis should carry meters. Yet the fare of around TL40,000 from Ankara's Esenboga airport is considerably more than that from Istanbul's Ataturk airport. The airport bus is a slower, but far cheaper, option.

HOTELS

Istanbul: Sheraton (1312121), Hilton (1314646) — the two premier hotels in Istanbul are often fully-booked. Room rates are costly: Sheraton - single \$190; double \$240. Hilton - single \$170-135; double \$200-160. Other hotels include Etap Marmara (1514696) - single \$170-150; double \$218-198. Less expensive hotels include the Riva, just off Taksim Square - single \$70; double \$95.

Ankara: Hilton (1682888), Etap Altinel (2317760), Best (1681122), Buyuk Ankara (1256655), First Apart Hotel (1682888) A Sheraton is also under construction, for completion in 1991.

Istanbul this summer may undergo severe water shortages, and guests in major hotels have already been advised that laundry services may not be available.

WORKING HOURS

Banks: 8.30-12.30 and 13.00-17.30, (Mon-Fri); Official Bureaux: 9.00-13.00 and 14.00-18.00, (Mon-Fri)

Business: 8.00-17.00 (Mon-Fri) although senior businessmen often work late.

Main Post Office: 8.00-24.00 (Mon-Sat), 8.00-19.00 (Sun)

Holidays: August is the month when most Turks take their holidays, and appointments may prove difficult.

Electricity: Domestic 220 volts, 50 cycles; industrial 380 volts; Plugs: European 2 prong.

TRANSPORT

Many international airlines include Istanbul as a destination, but fewer go to Ankara. Typical Apex fares to Istanbul are: London \$440; New York \$825; Frankfurt \$425. Travel between the main urban centres is quickest by the domestic services of flag carrier Turk Hava Yollari (THY - Turkish Airlines). One-way fares are: Istanbul-Ankara: TL150,000. Istanbul-Izmir: TL160,000. Istanbul-Adana: TL200,000.

A more sedate if slower way of travelling between Ankara and Istanbul or vice-versa is to take the overnight sleeper *(yatakli)*, which costs TL100,000 one way.

COMMUNICATIONS

Post offices are the best bet for international calls; pay telephones take special jetton coins, which can be purchased in small shops and post offices. All the main hotels in Ankara, Istanbul and Izmir should have direct dialling from rooms, most leading hotels have telex, and facsimile machines are fast catching on, but best to check.

LANGUAGES

Many Turkish executives speak English. Quite a few others, especially the young in the cities, have at least a sufficient smattering of English to give directions, etc. Otherwise, knowledge of German can be very useful, and French to a lesser degree. For more basic information, get "Ankara: The Professional's Business Reference," by Lindy Owen-Davies, published by the Ankara Business Centre, (tel: 1403020). It should be available in major hotels.

For those looking for wider information, there is a "Doing Business in Turkey" manual published by Istanbul Business Services and London-based Business International. This is updated quarterly, and provides an up-to-date, comprehensive reference work for the businessman whether visiting or resident in Turkey, with a general introduction, and sectoral treatment of the economy, plus the regulatory environment. Tel: IBS, Istanbul 1330345, or BI, London 493 6711

KEY FACTS

Area	779,452 sq km
Population	52.42m
Head of state	Turgut Ozal
Currency	1 Turkish lira = 100 kurus
Average exchange rate (1989)	\$1 = TL2,121.7

ECONOMY	1989 figures (1988 in brackets)
Total GNP (US \$m)	80,497 (70,587)
Real GDP growth	1.6% (3.7%) *1979-89: 1.6%
GDP per capita	n.a.(US \$1,306)
Current account balance (US \$m)	550 (1,503)
Budget deficit as % of GDP	3.8 (4.1)
Debt as % of GDP	45.9 (56.1)
Exports* (US \$m)	12,000 (11,846)
Imports* (US \$m)	15,300 (13,646)
Trade balance (US \$m)	-3,300 (-1,800)
Trade dependency#	33.9% (36.1%)
Trade balance as % of GDP	-4.4 (-2.6)
Budget deficit as % of GDP	3.8 (4.0)
Debt as % of GDP	45.9 (56.1)
Total debt (US \$m)	36,950 (39,592)
International reserves (US \$m)	6,780 (3,924)
Inflation	70.0% (75.4%)
Unemployment	n.a. (9.8%)

*Includes non-factor services #Imports plus exports as a percentage of GDP

David Barchard on the contradictions in Turkish foreign policy

Western ties, Mid-East tugs

DURING 1989, several of the pillars on which Turkey's foreign policy had been based since the 1950s crumbled without warning. As yet, the political upheavals in Eastern Europe and the Soviet Union have had only limited impact on the country. But government officials and public opinion are still trying to come to terms with the virtual rejection by the European Community of Turkey's 1987 application for full membership.

"We still want to join the Community but not at any price," says one Ankara official. "We had hoped for a signal of some sort from Brussels to say when negotiations can definitely start, even if there cannot be negotiations before 1992. But by and large the consensus in Turkey still firmly advocates ties with the West and membership of the EC, while the Commission and the Council of Ministers have both reaffirmed the principle of Turkish eligibility to join."

So the spotlight, as far as Europe is concerned, has shifted to two sets of issues. One is the establishment of closer economic links and a customs union between Turkey and the Community, something about which Turkish businessmen have reservations. The other is Turkey's disputes with Greece in the Aegean and Cyprus. Though there has been a change of government in Greece, there is little expectation that Turkish-Greek relations are about to take a sudden turn for the better.

In Ankara, foreign policy still seems to be largely shaped by President Ozal though his veteran lieutenant, Mr Ali Bozer, who became Foreign Minister in February when the previous incumbent, Mr Mesul Yilmaz, abruptly left the Government.

Mr Bozer, a law professor who served as Minister of Justice under the military but joined Mr Ozal's party in the mid-1980s, was previously in charge of the EC application and is a passionate advocate of Turkish membership of the Community.

From Turkey's point of view, potentially the most worrying element in its relations with the Community comes from the growing influence Greece now has over Community policy towards the Turks. There appears to be increasing linkage between progress in the disputes between Turkey and Greece in the Aegean and Cyprus and the Community's collective position towards Turkey.

Community financial aid to Turkey, due since 1981 and originally delayed because of objections to the military regime then in power, is still

Developments in the Soviet Caucasus are being watched carefully

not disbursed because of Greek objections. The result is that despite its senior status among countries associated with the Community, Turkey is still not receiving aid from it or enjoying full normal institutional and political relations, unlike many Arab and North African countries.

Until the early 1980s, the disputes between Greece and Turkey were kept in check by meetings of Turkish and Greek officials several times a year. The meetings were stopped by Mr Andreas Papandreou when he took office in 1981. Now Mr Papandreou is out of power, but there seems little likelihood that regular bilateral contacts with Turkey will be resumed in the near future.

A further worry is the possibility of a Greek Cypriot bid for Community membership. "Most Community members seem to be against a Greek Cypriot application. It would simply bring another item on to the agenda of problems. I want to stress that we do not welcome some of the difficulties Greece itself is having in the Community. We want everyone to recognise ultimately that the destiny of both Greece and Turkey lies with the EC."

Perhaps because of the intractable problems with Greece, Turkish diplomats hope a multilateral collective security system will emerge in the new post-Communist Europe. "To go back to Metternich and the Balance of Power would be very damaging and risky for the continent's future," says one Turkish Foreign Ministry official. "We don't want to see countries trying to balance each other out in a system of bilateral arrangements."

The collapse of the Communist regimes has eased some of Turkey's own bilateral problems with its neighbours,though it may also create new tensions. A year ago, the large Turkish minority in Bulgaria was suffering active persecution with its members being denied the right to practise their religion and use Turkish names. Today, their legal rights have been largely restored by the Government of President Peter Mladenov.

At the other end of the country, however, Turkey is watching developments in the Soviet Caucasus with some apprehension. When fighting flared up between Azeri Turks and Armenians early this year, public opinion in Turkey sided strongly with the Azeris. Yet the Turkish Government insisted on staying neutral and detached.

But as political movements among different national groups revive in Eastern Europe and the Soviet Union, Turkey is inevitably somewhat affected because of the close ties of language and culture between Turkey and Turkic peoples from the Caucasus to Singkiang. In several cases, ageing exiled leaders of Turkic national movements have lived in Turkey since the First or Second World War.

The revival of the disputes between Turks and Armenians in the Caucasus is felt to have a possible bearing on Turkish relations with the US and the West in general. Though the US is Turkey's main international ally, relations between the two countries seem to lurch continually from one sticking point to the next.

Last winter a draft resolution in the US Senate denouncing massacres of Armenians in Turkey during World War One was narrowly defeated, thus averting what promised to be a serious crisis in Turkish-American relations. Turkey rejects Armenian claims of an officially-sponsored genocide during the First World War and draws on the work of American scholars to show that the number of Armenians who died during the war was around 600,000 and not over 1.8m as Armenian nationalists say.

"The resolution would have put the eastern frontiers of Turkey into question," says a Turkish official in Ankara. National attitudes on the events of the First World War hardened in the 1970s largely as a response to campaigns by Armenian terrorist groups in which 41 Turkish diplomats and their family members were murdered.

In April, however, the first private meetings between Turkish diplomats in the US and Armenian groups took place, apparently representing an attempt by the Ozal administration to find a way of softening the confrontation.

Just how far the traditional alliance with the US – and Turkey's role within Nato – will be undermined by changes in the Soviet Union is still not clear. Turks tend to argue that one way or another a strong regional power will be needed in the Eastern Mediterranean and that there is no-one else around to fit the bill. If the alliance does fade, it will probably take quite a while to do so.

Talking to Turkish foreign policy-makers, it is clear that their own personal inclinations are strongly towards Europe and that some of the sticking points in Turkish-European relations – for example Turkey's human rights record – are understood, at least in private. But the gravitational tug of the country's Middle Eastern neighbours is still strong, even if relations with Iraq and Syria are both currently at a low ebb.

For several decades, Turkey has politely declined to give an unmistakable signal either to the Middle East or Europe that it belongs to one rather than the other. Nor has it faced up to European reactions to spreading Islamic revivalism inside Turkey.

Though Turkey is a secular state, many Turkish embassies now have religious affairs attachés, whose work is to promote religious activities among emigrant groups. "In our country a lot of problems among immigrant groups can be traced directly to the Islamic officer at the Turkish Embassy," says one Australian official who knows Turkey well. "That is something which seems to have started only in the 1980s."

Given the mixed complexion, part liberal, part Islamic revivalist, of the Ozal administration, these contradictions in Turkish foreign policy are perhaps inevitable. They are unlikely to be resolved until the balance of political forces inside Turkey comes down firmly on one side or the other.

THE ECONOMY

'Bravura won't beat inflation'

PERSISTENT INFLATION remains the chief economic and political problem for the Government, fuelling social discontent and being largely responsible for the ruling Motherland Party's (ANAP's) gloomy predicament in opinion polls. Though senior ministers might claim inflation will fall to 30 per cent by the end of the year, the present trend is upwards from the 62.5 per cent to the end of April.

Behind inflation is a widening budget deficit that rose by 205 per cent in the first quarter to *TL 1.5 trillion*, compared with January-March 1989. And behind the budget deficit are soaring personnel expenditures, up by 206 per cent to total TL5.7 trillion over the period, the result of salary and wage handouts in the summer of 1989. By contrast, austerity programmes elsewhere have cut deep – in real terms over the period, public investment declined by 35 per cent.

Even senior officials privately admit that the Government's targeted 1990 budget deficit of TL10.5 trillion now seems difficult to attain. "It can still be done, but we need more co-ordination among the politicians," says one. "I can assure you that you can't fight inflation with bravura."

Another inflationary pressure on the budget is domestic and external debt repayment, though the latter is considerably more under control than the former. Debt servicing forced the treasury to engage in fresh domestic borrowing in the first quarter of TL4.6 trillion, which if it continues at the present level may saturate demand and force the Government to raise rates on government securities. That, in turn, may feed through into higher bank interest rates, which at present are below inflation.

More ominously perhaps for monetary controls and the central bank's attempts to straighten out its balance sheet, the treasury's borrowing needs may heavily strain the agreement it reached last year with the central bank over maximum ceilings by which the former may tap the latter.

However, inflation could be slowed by increased production as the economy recovers from only marginal growth of 1.7 per cent in 1989, according to the third estimate of the State Institute of Statistics. The fall-back in 1989 was mainly due to contraction in the agricultural sector by 10 per cent because of drought. Industry began to recover in the second half of 1989 after recessionary period of about a year. Senior officials are much more optimistic about reaching the 5.7 per cent growth target set for 1990 than about reducing inflation below

Debt servicing may force up rates on government securities

50 per cent.

But 5.7 per cent will be impossible to achieve, thinks Professor Erdogan Alkin, adviser to the influential Turkish Businessmen and Industrialists' Association and head of Istanbul University's economics department. The excessive spending in the Turkish context necessary to achieve such a rate would propel the economy back into a vicious inflationary spiral, he says.

The agricultural sector has been a major inflationary factor, says Mr Ali Tigrel, head of the State Planning Organisation. On a 12-monthly comparison, to the end of April agricultural prices rose by 95 per cent compared with 66.8 per cent a year previously.

Yet good rains in April despite a dry winter could boost agricultural output so that food prices will once again traditionally be lower in summer – though the Government will also have a larger purchasing bill from co-operatives. In the first quarter, industrial consumption rose by around 15 per cent, a figure backed up by an increase in electricity consumption in the first two months of the year of 11.3 per cent.

"There are favourable developments in the private sector manufacturing cost index," says Mr Tigrel, who points out that the index rose by 46.1 per cent in the year to the end of April, compared with 61.3 per cent a year previously. But public sector performance has been almost the reverse, he says.

Balance of payments surpluses may also afford some room for manoeuvre. In 1989, the current account was in surplus by $968m, though 39 per cent less than the bumper surplus a year previously – which some economists say any way was unhealthily large for a developing country like Turkey. The surplus underpins continuing foreign exchange stability, and another though perhaps smaller, surplus is expected in 1990.

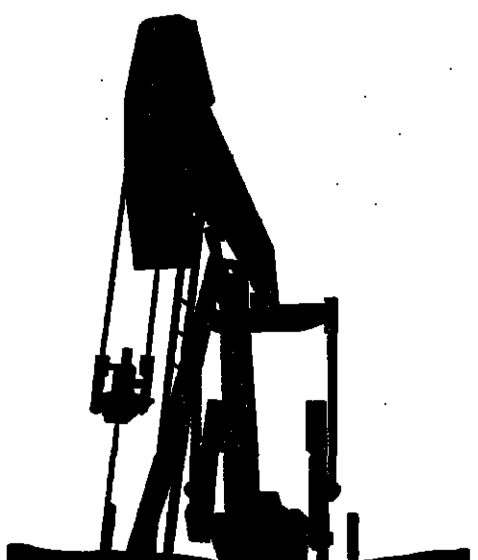
At this favourable juncture, the debt stock has been recalculated through a matrix including the "currency pooling" system utilised by the World Bank, ending up around 14 per cent higher at $41.02bn than it would have been otherwise. The increase largely stems from the reclassification of around $1.2bn worth of US foreign military sales credits as civilian debts through their conversion to lower interest US treasury bonds.

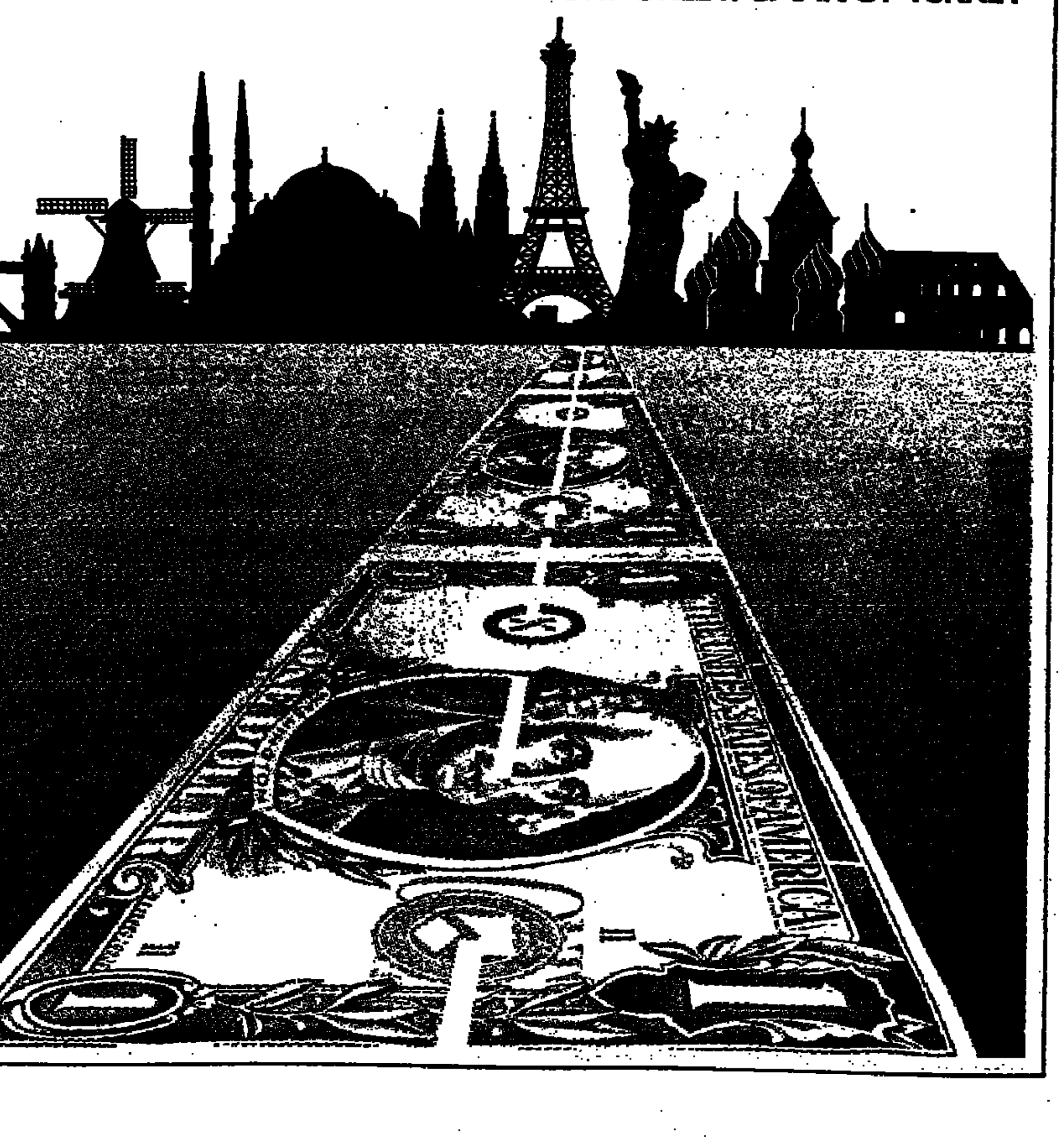
The accounts held by expatriate workers through the Dresdner Bank scheme with the central bank have also been revised as medium and long-term debt. And the accounting of foreign liabilities for the state economic enterprises has been tightened up. At the end of 1989, medium and long-term debt totalled $35.2bn, of which $33.7bn was public sector, and $1.5bn private. Foreign private sector debt totalled $6.6 bn.

"In general, there is a mixed outlook, but at least it won't be as bad as last year," says an Istanbul banker. "I think the economy could go in a much better direction, we've got the ingredients for that," says Mr Tigrel.

Jim Bodgener

Work on the new Galata Bridge over the Golden Horn in Istanbul, which will replace the famous wooden floating bridge





The country 'has solved its structural deficit problem'

Clouds lift over foreign debt

BALANCE OF payments problems – usually linked to the question of servicing Turkey's foreign debt (currently around $41bn) – have cast long shadows over the country's life for decades. Now, quite unexpectedly, the shadows have gone.

Turkey still runs a substantial deficit on its foreign trade. It reached a record $4bn last year. Servicing the foreign debt is painful too, with net outflows of principal and interest around $7.8bn last year and an expected $7.6bn this year: a heavy burden, equivalent to about 10 per cent of the Gross National Product.

But in 1990 the current account looks like being in surplus for the third year running. A surplus of $1.6bn in 1988 was followed by another of $1bn last year. No-one is losing sleep over whether Turkey will be able to meet its debt commitments.

"The overall foreign exchange balance, including the net errors and omissions item which also yielded $1bn, is a surplus of $1bn," says Mr Ali Tigrel, head of the State Planning Organisation.

These are not the only healthy signs. The Turkish lira is now fully convertible, though with 65 per cent inflation raging in Turkey, foreign banks are not scrambling to buy it. The reserves are stronger than ever, with total available reserves around $9.5bn.

"Turkey has solved its structural deficit problem," says one US banker in Istanbul. How has it all happened?

Tourism, 10 years ago a more or less negligible item on the current account, has contributed a surplus of over $2bn for the past two years. A second factor is remittances from Turks working abroad. These soared from $1.77bn in 1988 to $3.04bn last year. Workers' remittances are a rather volatile item in Turkey's balance of payments: if they had fallen to around $1bn (as they might easily have done), Turkey would have had a current account deficit of $1bn to contend with.

Using earnings from tourism and workers' remittances to finance is the goal Turkey's planners have dreamed of for a decade. Despite complaints about over-development of resorts, Turkey's tourism industry looks set to perform fairly well for the foreseeable future. Meanwhile, the country has to contend with some unexpected side-effects of the surplus.

The most obvious of these is that the Turkish lira is now depreciating much more slowly against foreign currencies than it did throughout the 1980s. Though Turkey's inflation rate was a shade under 70 per cent last year, the US dollar appreciated by only 27.5 per cent against the lira last year, and the Deutschemark by 33.4 per cent.

To most outsiders, it is fairly plain that Turkey's policymakers have taken advantage of the improvement in invisibles earnings and are allowing the lira to depreciate more slowly than in the past to help them tackle an inflation rate which a year ago looked as if it was about to reach three-figure levels. Ask Mr Rusdu Saracoglu, governor of the Central Bank, if this is the case, and he will tell you that the price of the lira against foreign currencies is set by the market nowadays. "If the supply of foreign exchange had been inadequate to meet the demand for it, then the rate of nominal depreciation would have been pushed up," he says. "That hasn't happened. Foreign currency is plentiful everywhere."

Will this situation last? No, say many Turkish businessmen and economists. Since the second half of last year, imports have been growing steadily, helped partly by the relaxation of tariffs on products such as cars. Imports in 1989 were worth $15.92bn compared to $13.7bn the previous year. The growth has continued in the early months of 1990.

Meanwhile, many exporters say they are folding their tents and looking for more profitable lines of business. Last year exports were slightly better than pessimists forecast, but they still fell from $11.92bn in 1988 to $11.77bn.

Turkey's exporters of industrial goods are not the large conglomerates, but small firms in textiles and similar sectors. One of Turkey's giants, the Sabanci Group, with turnover of more than $8bn, had group exports of $877m last year for example.

Exporters have been vociferous in the past year about the way the market has turned against them. Not only has the depreciation of the lira slowed down, but the remaining subsidies to exporters have finally been phased out. The Government has set up an Export-Import Bank to help supply export credit, but its impact so far has only been limited, exporters say. For the rest, the Government seems to expect exporters to earn their living by improving their efficiency. Most seem to be responding by shifting their attention to the domestic market.

"I am leaving foreign trade and looking for new lines of business such as construction, fast food and financial services. That's where profits are in Turkey these days," says Mr Mustafa Suzer, a former president of the Exporters' Union. The Suzer Group was one of the principal import-export houses in Turkey in the 1980s.

Mr Suzer says that if the old system of incentives had been maintained, along with steady devaluation of the lira, last year's $11bn export earnings would already have reached $18bn. This is not an argument which commands many supporters. After a decade of export-led growth in Turkey, exporters still have a relatively weak voice in the country. The industrial conglomerates echo newspaper claims that much of the export figures was made up of fraudulent claims aimed at winning tax rebates and other subsidies.

How quickly will the trade deficit reach a point at which the Government has to take action? Its main priority is not the trade deficit, but inflation. "We can hope for inflation to drop below 45 per cent this year," says one banker. "Exchange rate policy is unlikely to change until it does. But I don't see inflation falling that far until well on into the year."

Textile producers such as Mr Halil Bezmen at Mensucat Santral in Istanbul believe that present policies will last for several years. Despite gloomy trade figures in the first quarter of 1990, tourism already looks as if it may be well up on last year and remittances are not faring badly. So exporters who want to make a quick dollar might be best advised to earn it in Turkish lira on the domestic market and take advantage of the new convertibility.

On one other front, Turkey's external accounts continue to be much more cheerful than in the past. Direct investment from abroad last year was $863m, up from $854m in 1988. For most of the 1980s, direct investment in Turkey seldom crawled far beyond the $100m mark. Some Turks fear that international investors will now start looking to the newly liberated economies of Eastern Europe.

"I think the panic over that is unnecessary," says the American banker in Istanbul. "Turkey is not going to suffer a loss of investment for two reasons. Firstly, the market here is not changing for the worse. Secondly, the level of investment flows into Turkey is not that great. Even if direct investment grew to $900m, it would still be quite small by international standards."

David Barchard

Andrew Hill reports on prospects for industry

Taming the roller-coaster

PRIVATE SECTOR manufacturers are riding an ascending roller-coaster, according to the director of one large Turkish conglomerate: the overall trend is up, but the short-term economic humps and troughs occasionally threaten to throw companies off the rails.

The switchback has been particularly violent in the last two to three years. "Election economics" in 1987 boosted demand, but that led in due course to escalating inflation and the inevitable slump in output, especially in the first half of last year.

At the same time, the lack of demand meant industrial companies – most of which are much smaller than their western European counterparts – felt little desire to modernise or expand their capacity.

It was hardly surprising that the growth rate in Turkey's gross national product – hit by government cutbacks in industry investment and devastation of grain crops – slowed to less than 2 per cent in 1989, against 3.4 per cent in the previous year and as much as 8.1 per cent in 1986.

But since the middle of 1989 there has been a notable change in the short-term pressures on domestic demand for manufactured goods.

A new consumer boom was heralded by large pay awards for public servants, followed by a reduction in interest rates from 85 to 60 per cent. That not only increased the spending power of Turkish people, but encouraged them to invest in consumer durables, such as cars or refrigerators, as a hedge against continuing inflation.

Mr Tevfik Altinok, executive vice-president in charge of finance at Koç Holding, one of Turkey's largest companies, used to be a senior civil servant in the Treasury, but even he was surprised by the rapid change of policy.

The cathode ray tube manufacturing plant of Vestel, the TV and radio manufacturer and part of the Polly Peck group, in Thrace

"It caused sudden vitality in the economy: pessimistic expectations were originally on the agenda for the year-end, but everything was turned upside down. Now we are very optimistic," he says.

Koç, which has interests ranging from car manufacture (under licence from Ford and Fiat) to insurance, is expecting to report profits of $600m for 1989 on turnover of $6.3bn, and has revived and increased its investment programme to $250m. Sales in 1988 were $4.36bn and income before tax and minorities was $374m.

Turkish industry seems to be taking advantage of the short-term surge in consumer demand.

Recent official figures on the manufacture of selected goods – everything from raki, the national aniseed drink, to sulphuric acid – showed industrial production in the first two months of 1990 up 9.9 per cent against the equivalent period last year. Consumer durables showed particular strength: the number of refrigerators produced grew by 18 per cent, washing machines by 12 per cent and cars by 64 per cent. Once again, there is a six-month waiting list for a new car.

Other figures also indicate strengthening demand – electricity consumption for example, 60 per cent of which represents industrial use, increased by 10.4 per cent in January and February.

But there is a fear, both among Turkish industrialists and non-Turkish observers, that this boom could again be short-lived and that some of the factors fuelling it could also damage industry.

The cost of borrowing remains prohibitive, for small businesses in particular, stifling their ability to make much-needed investments in new capacity; wage increases, while boosting demand, could eliminate the advantage of comparatively low labour costs which Turkish industry has enjoyed in the last few years.

Profilo Holding, one of Turkey's largest manufacturers of white goods, has been revising its 1990 production estimates upwards since the middle of last year. But Mr Orhan Iyiler, vice-president in charge of marketing at the group, also gives a fine illustration of the difficult balancing act many businesses have to perform. "In our sector wage settlements will happen in September and we think they will be very high," he says. "It could bring some problems, and for that reason we are trying to increase our capacity and invest in machinery very quickly."

Switchback economics, followed by helter-skelter investment, hardly provide ideal conditions for a flourishing industrial sector. As one non-Turkish economist points out: "The confidence of private investors in the stability, continuity and objectivity of government economic policies has not been very great. There's not much dialogue between Government and industry at the moment."

Government has had the frostiest reception over the last year from exporters. Once encouraged by Ankara's economic policies, the large export industry had to cope last year not only with the phasing out of tax rebate incentives, but with real appreciation of the Turkish lira.

Perhaps most importantly, inflation is still high: that makes forward planning difficult (for traders and domestic manufacturers) and raw materials expensive, reducing the competitiveness of Turkish goods earmarked for export.

Tevfik Altinok, executive vice-president of Koç Holding: "We are very optimistic"

Mr Memduh Hacioğlu, chairman of the Istanbul Chamber of Industry, says there is a feeling that the Government should at least help exporters to keep their heads above water in the changed economic climate: "We are not expecting subsidies any more, but we would like to have level conditions," he says.

But some larger Turkish conglomerates, which want to enter the world market now, seem less sympathetic to the protests of smaller, less efficient trading companies.

Mr Ishak Alaton, Alarko's forthright president, is critical of government manipulation of the economy ("it's a Russian economy for a Western democracy") but he also believes this may be the moment to expose Turkish industry to the rigours of outside competition.

"I have heard calls for gradual opening to competition for the last 40 years," he jokes. "It is as though we have been living under a glass dome: Ozal has started to lift it to let in oxygen, but we are afraid and are shouting 'Close the jar again!'"

Surprisingly, despite having to cope with capricious policymakers in Ankara, private sector industrialists seem reasonably confident about 1990 and beyond. Some exporters even believe they could cope with another 10 percentage points of real currency appreciation, on top of last year's 20 or 25 per cent. No wonder outside observers believe the entrepreneurial spirit of many Turkish business people will never be broken by political uncertainty.

But at the same time there is little doubt that it will be necessary to expand and diversify away from the old core industries – textiles, chemicals, iron and steel – to secure the future of Turkish industry.

"For the next one or two years I think we have enough spare capacity, but for the decade ahead Turkish companies have to make a lot of new investment – change the technology and add new production lines," admits Mr Hacioğlu.

The Government, despite cutting back on investment in the cumbersome state-owned enterprises latterly, obviously sees the value of restructuring public sector industry and floating parts of it on the revived Istanbul Stock Exchange. The private sector may also look to the stock market for funds, if staid Turkish owners can be persuaded to give up more of their jealously guarded shares.

But Turkish industry will also have to look outside the country for expertise and investment. Since last year it will be competing for those resources with industries based in eastern European countries which are culturally and geographically closer to the principal sources of foreign capital.

To win that contest, the Turkish Government will have to prove – in collaboration with its ambitious industrialists rather than in conflict with them – that it can tame the economic roller-coaster.

As the doors open for the larger foreign players...

Unexpected respite for the banks

1990 LOOKS like being a relatively tranquil year for Turkey's 64 banks. Interest rates to depositors, which peaked amid fierce competition in October 1988, are now being held down a few points below the inflation rate. Foreign exchange, previously scarce in Turkey, is now abundant.

For an industry which has been struggling non-stop for a decade to overhaul itself, these conditions are something of a unexpected respite after a year of high rates and low profitability. "The atmosphere of chronic emergency has receded," says one foreign banker in Istanbul. "That means that banks are free to concentrate their sights on improving their banking activities rather than coping with near-crisis conditions."

Mr Erol Sabanci, vice chairman of Akbank, the country's third largest bank, has another way of putting it. "The deposit side of business is digestible with interest rates at a maximum of 56 to 58 per cent," he says. "But loan demand is weak and competition for good customers is strong."

Last year despite these market conditions, Akbank's deposits grew by 34 per cent to TL4.9 trillion, to produce pre-tax profits of TL389.6bn (£108.2m) on total assets of TL17.75 trillion (£4.9bn) Is Bankasi, its principal competitor, had total assets of TL11.75 trillion (£3.2bn), and total deposits of TL8.77bn (£2.43bn), and reported a pre-tax profit of TL196.6bn (£54.6m).

Though Akbank is tightly linked to the Sabanci Group, one of Turkey's two main industrial conglomerates, which has a 93 per cent stake in it, capital adequacy requirements hold no terrors for Mr Sabanci who proclaims that Akbank's capital rate under the BIS definition is 19.6 per cent. "We are one of the banks whose real net working capital shows a surplus," says Mr Sabanci.

Capital adequacy requirements, being introduced in changes to the banking law planned for this summer, are forcing some other banks to take action. "We don't have too much of a problem," says Mr Ibrahim Betil, general manager of Garanti Bankasi, another Istanbul-based privately-owned commercial bank, "but we are planning some sales of premises and shareholding participations."

Mr Betil says that capital adequacy definitions contained in the new draft legislation are tougher than those of the rest of the world. "For example, a Letter of Guarantee is treated as a 100 per cent risk-carrying asset here, while in Europe it is only a 50 per cent risk-carrying asset. Our risk-asset ratio is 6.73 per cent according to the new Turkish standards, but would be 8.5 per cent under world standards. I think this is an anomaly."

One unexpected result of the new banking legislation has been to open doors for foreign banks in Turkey. Though a stream of foreigners have come into the Turkish market in the 1980s, relying heavily on trade finance, their activities were tightly hedged around with legal restrictions, evidently introduced to protect Turkish banks from undue competition.

They are indignant that the goal-posts have been moved

When the legislation was being drafted, the Turkish banks lobbied behind the scenes to ensure that all banks would from now on have to have a minimum of TL30bn (£7.3m) capital, well above the old $6m (£3.75m) required.

"Pressure from the Turkish banks to ensure that each bank, including small foreign one-branch operations, has a minimum capital of TL30bn has meant that foreign banks are no longer treated separately," says one European banker in Istanbul.

This change is viewed with mixed feelings by the foreign banks. It sets them free to go into areas previously closed to them, but it also imposes much stiffer capital requirements than many feel are necessary for a one branch-subsidiary of a large international bank.

Rusiu Saracoglu, Governor of the Bank of Turkey

Some larger foreign banks are now eyeing the opportunities in retail banking in Turkey, but the smaller foreign players in the Turkish market are indignant that the goal-posts have suddenly been moved.

"We came here on the understanding that a minimum capital of $6m was required. Now that figure has suddenly been increased," says the banker. "Under BIS rules, it is a bank's overall capital which is measured when assessing its capital adequacy. Here it is only the strength in this country which counts. Yet everyone knows there are Turkish banks which have negative net worth but will get away with it under the new rules, at least for a time. If international auditing standards were applied to Turkish banks, a good few of them would have to close."

This judgement conflicts with claims by Mr Ustun Sanver of the Union of Turkish Banks that most of the country's banks already meet the minimum 8 per cent risk/asset ratio level set by the Cook Committee.

Koc American, one of the most profitable Turkish banks in the 1980s, says its present capital is well below the new minimum. The bank is owned 51 per cent by Koc, one of Turkey's two main industrial conglomerates, and American Express.

The foreign banks are in many cases looking around for partners or considering offering 15 per cent on the Stock Exchange. There could be good incentives for local partners," says Mr Metin Berk, assistant general manager of Koc American.

Though competition has made the trade finance market less lucrative than it was in the early 1980s, interest in other lines of business is growing. "Trade finance is passé," says Mr Berk. "But a foreign bank can now look to the capital markets, private banking and investment banking."

One of the newcomers looking to this kind of business is Turk Merchant Bank, a joint venture between Is Bankasi and Bankers' Trust. Its general manager, Mr Vural Akisik, says he has about 35 customers for specialist structured financial services advising in deals such as the sale of Egebank, a small Izmir-based bank, last year. "There were 19 principal partners and they all had very different views," Mr Akisik says.

Mergers and acquisition activity is still very new in Turkey. "You design a deal. You put it to your customer. Then at the last moment he pullsback, saying he can't go ahead with it, the people involved are old friends," says one banker.

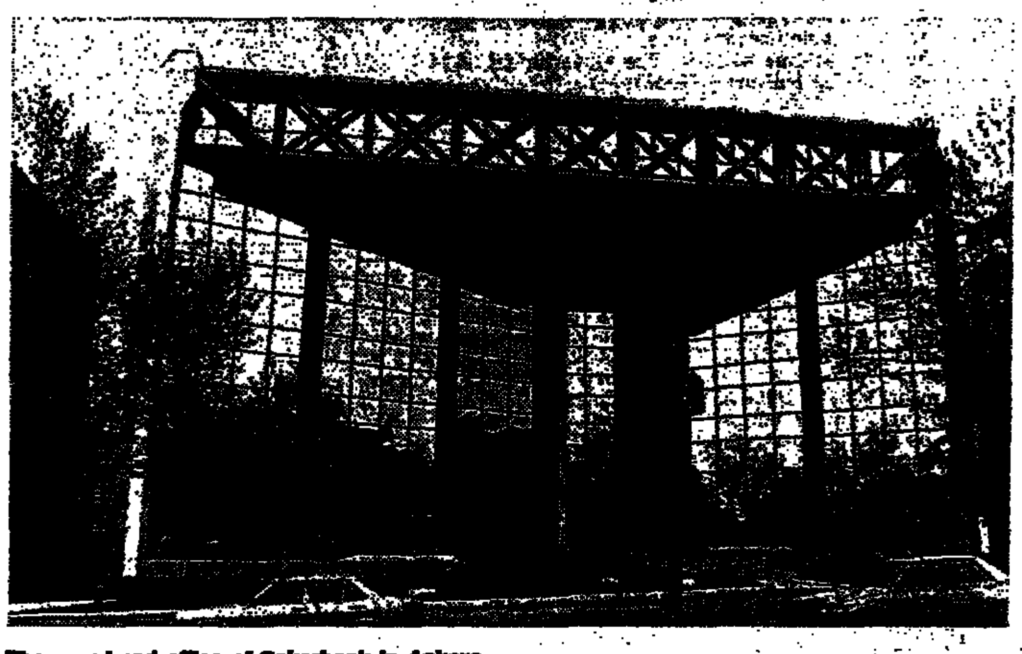
At the other end of the market, banks such as Is Bankasi are developing retail banking money transmission services. It now has more than 500 of its 960 branches operating on-line in real time and has installed more than 250 automatic teller machines.

Mr Unal Korukcu, Is Bankasi's chief executive,is piloting the bank through a period of rapid change, which is forcing the rethinking of many long-held attitudes. Last year Is Bankasi sold stakes in two of its prime industrial subsidiaries to an outside partner.

As 1992 and the single market in Europe approaches, Turkish banks are increasingly conscious of limitations placed on them by their size. "There is almost no institution which can compete size-wise in the international markets," says Mr Sanver. The obvious way for them to grow would be through mergers, but inter-bank mergers are still more or less unknown in Turkey where bank ownership is dearly cherished by businessmen.

"I don't expect to see mergers in the very near future, but 1992 may eventually force banks to start thinking in those terms," Mr Sanver adds.

David Barchard



The new head office of Sekerbank in Ankara

AGRICULTURE

Exit from the farms

TURKEY'S WORST drought in 50 years, which devastated grain crops in 1989, led to an overall decrease in agricultural output of 10.8 per cent compared to a 7.1 per cent growth in 1988, according to estimates by the State Institute of Statistics.

While agricultural output overall fell 10 per cent, the grain crop was down 25 per cent on the previous year. This meant that Turkey spent $1bn importing 6m tonnes of grain. In spite of recent rains, the grain crop is expected to be down again on 1988 levels by about 10 per cent.

Western observers were surprised at Turkey's need to import wheat in 1989 since, according to one source, official statistics indicated there should have been a national stockpile of 80m tonnes.

Government figures for wheat production in 1989 were 16.5m tonnes, against 20m tonnes in 1988. The real figures are thought to be 11.5m tonnes against 15m tonnes the previous year. Meat production is even more difficult to gauge. Figures have not been published in the last three years but unofficial figures suggest beef production was 250,000 tonnes, lamb 350,000 tonnes and poultry 250,000 tonnes.

Agricultural exports were worth $2.35bn in 1989, against $1.5bn spent on agricultural imports. Tobacco ($481m) was the most valuable agricultural export.

If anything, the drought has stiffened Turkey's resolve to improve its irrigation. The South-Eastern Anatolian irrigation project (Gap) will add an extra 1.6m hectares of fertile arable land to the 28m hectares of farmland in Turkey. The project will also allow double cropping annually, but the full programme is expected to take about 30 years to be fully developed.

In the meantime, in spite of an agricultural sector which claims to be self-sufficient, the Government concedes that a fifth of its population has an unbalanced diet and nearly a fifth suffers protein deficiencies due to a lack of meat.

Economic and demographic considerations are forcing new debate on agricultural development policies: should Turkey strive to maintain overall self-sufficiency or should it be more selective? Should it continue to restructure its subsidies and import regulations to bring the country in line with EC expectations?

While the negative opinion from the European Commission in December on Turkey's EC full membership application has excluded negotiations before 1993, Turkish population growth and the general level of its agricultural development would appear to rule out any real prospect of joining the 12 before the turn of the century.

Dr Ahmet Ozgünes, chairman of the state-run Turkish Grain Board, argues that Turkey *must* take an *increasingly* pragmatic view towards its place in the swiftly changing map of Europe.

Economic alignment with central Europe — an idea once expounded by Ataturk

He believes that Turkey should start looking towards an economic alignment with some of the emerging capitalist states in central Europe, such as Bulgaria, Hungary and Rumania. This revival of an idea once expounded by Kemal Atatürk is still dismissed as politically naive in some circles.

The Government says it is looking to "positive developments" in agricultural exports to eastern Europe, particularly of citrus fruits, vegetables and textile products.

Turkish agriculture is also looking to Africa and the Middle East. "We are on the doorstep of the biggest food deficit area in the world, presenting a great opportunity to export. I think we should develop a new emphasis on developing those products in which we have a competitive advantage," says Mr Ozgünes.

Agricultural policies will also need to be tailored to counter demographic trends resulting from an impoverished rural society deserting the villages.

In 1950, 75 per cent of the population was rural. In 1985 the split was 53 per cent rural, 47 per cent urban. In 1990 the split is expected to be 40 per cent rural against 60 per cent urban.

Turkey has about 3m smallholdings. The tradition of large families, particularly maintained in the rural eastern regions of the country, and the inheritance practice of dividing land equally between sons, make farming less economical.

High-yielding seeds have helped increase production but the return on output is not keeping pace with inflation and increasing input costs. A study carried out by the SIS showed that a farmer who could buy a tractor by selling 29,720 kg of wheat in 1975 had to sell 75,688 kg of wheat in 1989 to buy the same tractor.

Confronted with the economic reality of subsistence farming, more and more rural families are flooding into the cities to find work.

Some 500,000 to 600,000 people a year are migrating into Istanbul's *gecekondus*, shanty *towns which cling to the hill*sides on the outskirts.

"In 1951 when I came to Istanbul it had a population of 470,000. It seems unbelievable now that it is a city of 8m people," says Mr Yaşar Yaşer, executive director of the Turkish Family Health and Planning Foundation.

Population growth in Turkey's urban centres is causing increasing social and health problems for a government which appears unable to face the reality of unplanned urban expansion.

The most conservative estimates, by the SIS, are that Turkey's population, currently 55m and growing at the rate of 4,320 births a day, will reach 67m by the year 2,000.

The foundation believes that population growth will be sustained at present levels into the next century in Turkey, with the figure of 100m reached before 2010. Even accounting for the most intensive campaigns on birth control, Mr Yaşer says he does not believe that changes in custom and practice will be sufficient to soften the present growth.

Agricultural and industrial parity aside, the population surge alone will probably suffice to deter EC acceptance for fear of mass cross-border migration in a post-1992 community without barriers.

Richard Donkin

Fishermen on Golden Horn in Istanbul

Tourism is the country's newest industry

No Benidorms — yet

THE SHORT drive from Antalya airport on Turkey's Mediterranean coast to the resort itself must worry those North European tourists who came to Turkey to get away from the overdeveloped Spanish Costas.

Here are all the hallmarks of rapacious mass tourism, from the aircraft of obscure charter lines drawn up on the apron of Antalya's expanding airport, to the ugly billboards and building sites on the outskirts of the town proper.

So has Turkey failed to learn the painful tourism development lessons taught to Spain and others during the last two decades?

Antalya's travel agencies, hotel managers and mayor, Mr Hasan Subasi, answer a cautious no. The region — rich in archaeological remains — supplied more than a third of the 155,000 hotel and guesthouse beds Turkey could offer to tourists in 1989.

Two international chains — Sheraton and Steigenberger — have erected large hotels in the familiar space-age style on the cliffs to the west of Antalya, but the old town, some of it sensitively restored, seems to have *kept* its character. Antalya is not yet Benidorm-with-mosques.

These are the longer-term worries for Turkish tourism officials, but as the 1990 season opens, they have more immediate concerns on their minds. In 1988 tourism receipts grew by a euphoric 37 per cent. Inevitably, that was followed by a slower season last year — tourism earnings still reached $2.5bn but growth was down to 7 per cent — and that has forced the industry to refocus attention on fundamentals.

Observers provide several explanations for the slacker market last year. Encouraged by government incentives, some builders opened large, new hotels halfway through the season and were forced to lower prices to attract trade; that drove down prices in better-established hotels. Some say that foreign tour operators block-booked hotels and cheaper *pansiyons* in the warm afterglow of the 1988 season, only to cancel at short notice when demand failed to live up to their expectations.

The alternative and harsher explanation is that the bounty on offer in 1988 made hoteliers greedy. They simply charged too much for their product last year.

Such analysis probably paints an unduly gloomy picture — last season was hardly a disaster — but *these* were still salutary lessons for the fledgling Turkish tourist trade. However, 1990 should be a better season. One Turkish travel company, acting as an intermediary between foreign tour operators and local hoteliers, reports a 15 or 20 per cent increase in bookings.

If nothing else, 1989 taught those involved in Turkey's newest industry that they could not afford to relax.

A glance at the comparative figures for Turkey's Mediterranean and Aegean competitors is enough to highlight the challenges for the sector in the next decade. Turkey welcomed 4.5m visitors last year, including those on short trips and 2.3m on organised tours. But Majorca alone had 8m visitors, and Spain as a whole accommodated 52m.

The principal short-term dilemma is pricing. Planning ahead is complicated by the fact that inflation is still rising; pricing to take account of end-of-season costs makes Turkey look less attractive than other resorts, which are already cheaper because they are closer to north European airports.

So the Turkish Government is now considering draft legislation which would provide incentives to Turkish travel agents and others to market the country overseas. That would help reduce dependence on the whim of foreign tour operators and sustain a level of repeat business vital for the long-term health of the industry.

"A million beds is not that much if deployed all over Turkey"

There also appears to be a greater impulse to expand the tourist season, by encouraging convention and conference business for example, and to add value to the traditional sun-and-sea holiday. Although the nation is not exactly famous for its championship golfers, the Government is offering support for the construction of six or seven golf courses around the coast — several in the Antalya region.

That is combined with the natural desire to spread "cultural tourism" into central Anatolia, which is well stocked with archaeology, but poorly served by hotels.

Mr Burhan Silahtaroğlu, president of tourism and industrial group Silkar Holding and something of an evangelist for the industry, is one advocate of the broader approach.

"Entrepreneurs made the mistake of thinking that construction was tourism," he says. "They thought a five-star hotel and a beach was enough. In fact, tourism is a unity of several different elements — nature, good building, good management and service, hospitality and climate. That is the product."

Nature, climate and hospitality are already on Turkey's side. *Government and the pri*vate sector are now trying to get the other elements right. Tourism skills, for example, are now *taught* by some Turkish universities and schools, which can then supply better-qualified staff to the tourist areas.

As for good building — and the related problems of infrastructure development and pollution — how planning should be co-ordinated and by whom is still politically controversial.

Although central government now takes responsibility for giving planning permission in designated tourist areas, some local politicians object to the decisions, including Mr Subaşi, Antalya's mayor. His local authority is quite prepared to take legal action against the Government, for example when Ankara's plans appear to jeopardise stringent local pollution restrictions.

But even the fiercely protective Mr Subaşi, admits that some sacrifices have to be *made in the name of tourism.* Exploitation of the lucrative world market will inevitably involve further new building, although high interest rates and inflation have led to a lull recently.

Mr Necdet Sonmez, general director in charge of operations at the Ministry of Tourism in Ankara, says he hopes Turkey will have a capacity of 400,000 beds by 1993-94, and points out that most of the new hotels will be in the one-star and two-star categories, countering criticism that the luxury market was overdeveloped in the early years because of government incentives.

Silkar's Mr Silahtaroğlu looks even further ahead. He wants Turkey to have a capacity of 1m beds by the year 2000 — and a central body co-ordinating all decisions on tourism in place of the current bureaucratic confusion.

"A million beds is not that much if deployed all over Turkey," he says. "The country has 8,000km of beach and is the largest open museum in the world. Taking into account growth in tourism, 1m beds would give us 4 per cent of the world market at the end of the century, compared with 1.5 per cent now."

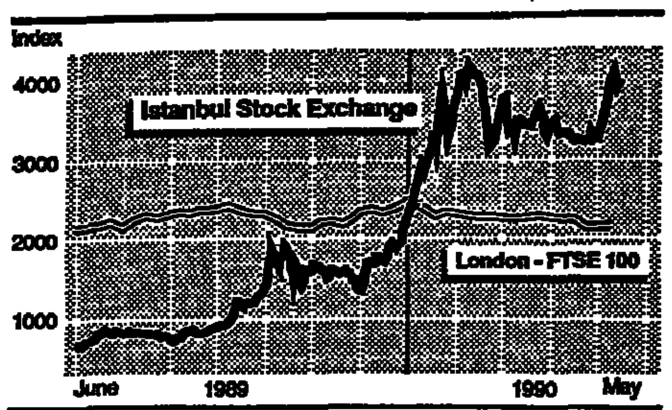
That looks ambitious and potentially damaging to the environment, but both men, in their different ways, recognise the threats. Mr Sonmez says simply: "We want to strike a balance between using and preserving nature."

The question is how best to achieve the balance.

Andrew Hill

ISTANBUL STOCK EXCHANGE

Shouting dies down



IT MAY not be long before Istanbul is known for two famous markets: the ancient covered bazaar – and the Stock Exchange (ISE).

But after the excitement of 1989 – when the ISE Index outperformed all other world markets with a rise of almost 500 per cent – Istanbul's newest market is entering a critical period likely to test the depth of its development.

Like the bazaar, the ISE has attracted a number of foreigners in search of a bargain; not tourists, but hard-nosed professional managers of US and European emerging market funds, including one devoted solely to Turkey.

The opening of the ISE to foreign investors last August was one factor behind the giddy ascent of stock prices. In February the ISE Index reached nearly 4,200, compared with 390 a year earlier, before falling back.

At the height of last year's speculative excitement, more than 2,000 shouting investors packed the ISE's tiny trading floor by the Bosphorus, including peasants on special excursion coach trips from central Anatolia. But since January, members of the public have been excluded from the floor, leaving only the ISE's 96 members and their representatives.

Such developments have led some Istanbul bankers to detect a new maturity in the 1990 market, after the speculative excitement of last year. Figures released recently by the exchange showed an increase in first quarter trading volume from TL43bn to TL3,000bn at a daily average of some TL47bn (TL673m), so there is little decline in activity. But is greater sophistication really creeping into the marketplace?

"Judging from the questions now coming from some investors I think many people understand the situation is completely different: they're a lot more careful about buying shares now," says one banker.

At the same time, equities continue to look attractive to Turkish investors, compared with other, more traditional vehicles, such as bank deposits, where interest rates still languish below the escalating inflation rate. Some Istanbul investment managers expect the value of the ISE Index to double this year, and recently a rush to switch funds out of inflation-blighted deposits, foreign exchange and gold pushed the ISE Index back up nearly 1,000 points in a week, to over 4,000.

But the similarities between the bazaar and the stock market (which was revived only in late 1985) are still more striking than the differences. Prices are not always in line with the value of the product; buyers are deprived of reliable information about what they are buying, and the pace of dealing – by open outcry – is often frenetic.

Despite the ISE's claim that more potential shareholders are examining the financial position of the companies in which they want to invest, the market is still driven by technical factors, principally the scarcity of stock.

This inevitably encourages manipulation, and not only on the shady, unregulated "over-the-counter" market now flourishing outside the Exchange building. For example, the ISE is just recovering from its first scandal – a simple one, involving the forgery of stock certificates in Cukurova Elektrik, one of the largest quoted companies. More sophisticated financial skulduggery may not go undetected but at the moment it goes unpunished.

"There are Ivan Boeskys in every market," says Mr Ishak Alaton, a prominent Istanbul industrialist. "But insider trading isn't even written into the laws of Turkey yet."

About 15 per cent of the equity in Mr Alaton's holding company, Alarko, is quoted on the ISE. To underpin the technical strength of the market, many observers, both inside and outside Turkey, believe Mr Alaton and his fellow industrialists will have to release much more of their blue-chip stock onto the market.

The trading floor of the Istanbul Stock Exchange

That would improve the liquidity and the credibility of the ISE. It would also help offset the indirect influence of the Government on the exchange.

Apart from supervising the operation of the ISE through the Capital Market Board, the Government holds minority stakes in a number of quoted groups. It also has the ability to influence the market through its extensive privatisation plans, which are in the hands of the Public Participation Administration (PPA) headed by Mr Okkeş Ozuygur.

That ambitious programme has suffered some setbacks this year, with opposition politicians challenging the Government's legal right to sell five cement works to the French group Société Ciments des Francais (SCF), and the airline catering operation Usas to Scandinavian Airlines System.

Both sales took place last year, but opponents of the Government believe employees and local people should have been offered the right to participate first, and they have won the opening round of the legal battle. The Government plans to appeal.

According to Mr Yves-Marie Laouënan, who heads SCF's Turkish operation, while the political football of privatisation is kicked about, potential foreign investors are holding back, deterred by the legal uncertainty. Others fear those same investors may switch their attention to new emerging markets in Eastern Europe if the position is not clarified.

"A lot of people are now waiting to see what happens to us," says Mr Laouënan, but he believes it could take as long as six months for a definitive decision to emerge.

That might also delay larger and more complicated privatisations, such as the restructuring and sale of all or part of Sumerbank, the cumbersome state textile manufacturing and retailing group. Foreign advisers believe some element of outside expertise is essential to guide such industrial mammoths towards the free market.

The PPA's Mr Ozuygur seems less concerned by the latest obstacles put in his path. He dismisses the legal hiccups as a technicality, but adds carefully that future issues would be offered to the public first, to gauge the level of interest. The PPA would then look for foreign and Turkish "partners" or "core investors," as Mr Ozuygur describes them.

If the PPA has its way the first moves to privatise Petkim, the state petro-chemicals company, could be made as early as next month, with further small sales in the autumn.

That might provide a further boost for the ISE Index, which has also been boosted in recent weeks by the PPA's other brainchild – the sale of the Government's minority stakes in more profitable groups already listed on the exchange.

Shares have been offered to the public across the country through Turkiye Iş Bankasi's network of 500 computerised branches, raising an estimated \$120m-\$150m for the state. Iş Bank will also handle the costly and complex process of buying and selling the shares for small investors, and distributing dividends.

The PPA has been criticised for heavy-handed intervention in the market to support the share price of the six companies concerned, but Mr Ozuygur seems aware of the dangers of going too far too fast.

"The Exchange is like a baby for us: we want it to cry healthily – we definitely don't want to dump our shares and kill it," he says.

In fact, the move is already attracting plaudits from Turkish and foreign bankers, despite the fact that it brings into the market more unsophisticated investors whose long-term devotion to equities cannot be gauged.

Advocates of the ISE agree that holding shares may be the best way of educating people about the workings of the Exchange. That should help secure last year's bull market, and encourage new sophistication. Mass acceptance of equity investment could eventually persuade the Turkish business community that an ISE quotation is useful, both as a means of raising capital and, some suggest, of enhancing a company's reputation at home and overseas.

More efficient settlement procedures, deeper and better-informed financial analysis and perhaps even the long-awaited move to a larger building will smooth the ISE's transformation from, as one foreign banker put it, "grocer's shop to supermarket."

But all that will take time. The ISE is not, in the words of one critic, "a heap of rubbish," but the alleyway which joins the ethics and practice of the bazaar to the sophistication of Wall Street and the City is still a long one.

Andrew Hill

Richard Donkin meets the leader of the country's largest workers' organisation

Ban keeps 1.25m out of unions

ŞEVKET YILMAZ, a thick-jowled, powerful man who wears his textile worker credentials on his sleeve, thumped the table and declared: "I am a radical."

Mr Yilmaz, the chairman of Turk-iş, Turkey's largest trade union confederation, is nothing of the sort. But militancy is fashionable in a country which has seen the price of a loaf of bread rise from TL50 to TL350 in two and a half years.

Re-elected last November as the head of some 1.7m workers, Mr Yilmaz, 61, is at the forefront of an as yet unsophisticated trade union movement with about 2.2m unionised workers.

The growth of trade unionism has been severely stunted by legislation which forbids large sections of the salaried workforce from joining unions. Some 450,000 teachers and 1.25m civil servants are included in the ban.

The restrictions hark back to the military takeover in 1980 when the right to strike and free collective bargaining were limited by decree. Laws were passed in 1963 after the new constitution which, while not forbidding strikes and collective bargaining outright, made them difficult to organise in practice.

The post-1980 development of Turkish trade unions has been continually haunted by the spectre of Disk, a former confederation disbanded in the coup with 1,142 of its members placed on trial, leading to prison sentences of up to 10 years for 260 of them. Some trials, including those against Mr Abdullah Basturk, its former president, and Mr Fehmi Işiklar, the former general secretary, are still not completed.

Against this background, Turkish trade unionists have evolved tactics to signal that they are in dispute before resorting to strike action.

About 50 of these so-called "spring activities" were devised and put into practice during last year's pay claim by 600,000 public sector workers.

The first sign of a problem for some Turkish managements was when they noticed a universal five-o-clock shadow upon the chins of their male employees. Beard-growing was used to establish workforce solidarity.

Other tactics developed in the 1989 campaign were mass visits to doctors for check-ups, walking to work barefoot, refusing to eat factory lunches, clapping of hands in groups and overtime bans.

The same tactics have not been pursued so vigorously this year and where they have been used, managements have demonstrated a new tougher approach. Passive protests in a glass factory in March led to 21 of the ringleaders being made redundant.

Industrial action this year has been concentrated in the private sector. The public sector two-year agreement signed last year conceded a 142 per cent pay increase. A further 8.8 per cent increase this year as compensation for inflation was agreed by the Prime Minister in March.

By April some 45,000 workers were on strike in the private sector though the largest strike – in the cement sector, partly suspended when the Government ruled that action in some factories in the south-east was against national security – has now been settled.

The 17,774 cement workers accepted a biannnual agreement which gave them a 100 per cent increase this year and 60 per cent next year plus supplements. The wage rise, contrasted with the official inflation target of 54 per cent for this year, is likely to herald another difficult spring for the Government.

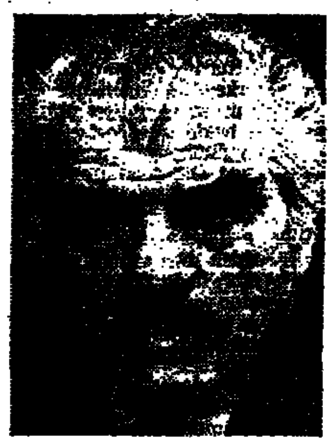
Mr Yilmaz unsuccessfully attempted to stave off a repetition of the 1989 May Day demonstrations among rank and file trade unionists in Istanbul that ended in violence and the death of one demonstrator.

If anything, this year's demonstrations, banned by law, were even more hostile. Two people were shot and police made 2,500 arrests after some 18,000 policemen and paramilitary gendarmes sealed off the central Taksim square.

Turkey needed no clearer statement that repressive legislation inherited from the military is being invoked and enforced.

Trade unions are prevented by law from being politically organised in Turkey and cannot support any political party. So they have concentrated their efforts on criticising the existing administration.

Mr Yilmaz has saved most of his thunder this year for the Government. Calling for an early election, he said: "Turkey is an inseparable part of Europe, which is why we want to have the basic freedoms and rights of European workers in Turkey. But the Government is playing deaf. That is why we don't want it any more," he said.



Şevket Yilmaz, of Turk-iş

The Turk-iş leadership is also under pressure from grassroots activists to take more action on safety at work, particularly after a mining accident at the Yeniceltek coal mine by the Black Sea in February when 68 men died. Miners had been complaining that they could smell gas days before the incident, but their claims were ignored.

The unions have been slow to confront broader labour issues. Child labour, for example, is hardly considered an issue. While this may be understandable in a rural culture, where the whole family works on the land at various times of the year, it is a different picture where the family moves to an industrialised environment but the children are still called upon to work.

Mr Valentin Suazo, county director of the Asian American Free Labour Institute in Ankara, says that a fall in incomes in real terms is forcing families to regard their children as increasingly important sources of income.

According to institute statistics, 17 per cent of Turkey's labour force is between the ages of 12 and 19. Only 800,000 of some 2.5m working children are legally employed. About 1.6m children work in agriculture while the rest are employed in factories or in the service sector.

No official figures exist on the number of pre-adolescent children who are working but such children are to be found in small factories and on the street selling goods. The minimum basic working age is 13 for light labour and 15 for heavy labour.

Child labour is not only a problem of exploitation but a problem for adult workers who are displaced by poorly educated, poorly trained youngsters who can find work where skilled adults fail.

Unemployment statistics in Turkey are unreliable. Officially, unemployment is 8.4 per cent but that figure is based upon a definition that classes anyone who works more than one hour a week as employed. A more realistic unemployment figure might be between 15 and 20 per cent.

For the time being, the wider issues of trade unionism are likely to take second place to a desire for basic freedoms, while union leaders appear content to concentrate on issues of pay and the right to organise. It is difficult to see any prospect for change among the trade unions while the existing administration is in power.

"Fundamentalism is not fanaticism"

Islam: a growth industry

NECATI ÇELIK sat uneasily fingering his prayer beads beneath the ubiquitous portrait of Kemal Atatürk. The piercing gaze of this benevolent dictator stares hypnotically from so many offices in Turkish cities.

It was Ramadan, the Islamic festival, and Mr Çelik, the head of *Hak-is*, a fundamentalist trade union, like all good Muslims, was strictly observing the fast. Asked for his opinion of Atatürk, Mr Çelik refused to comment. He explained that it was against the law to criticise the great founder of modern Turkey.

This implied criticism is typical of Islamic fundamentalists in Turkey who resent what they see as the religiously repressive nature of Atatürk's secular constitution. In contrast, westernised Turks reject the conformity and rigid learning patterns of Islam. Atatürk could not conceive of an Islamic society breaking into the 20th century industrialised West.

Turkey today must confront Muslim fundamentalism as a growing force internationally which reminds believers that their religion is not simply a faith but also an ideology which challenges secularism and seeks political power.

While the Turkish army and Turkish law continue to stand in the way of those fundamentalist goals, the increasing polarity between Kemalist and Muslim values is leading to a disturbing decline in tolerance from both camps.

Atatürk is still revered in a cult of personality that has no mirror in western society. To the western liberal his religious reforms appear repressive: insistence on the peaked cap for male headgear

The polarity between Kemalist and Muslim is leading to a decline in tolerance by both

to prevent Muslims touching the ground in prayer, abandonment of Islamic tuition in schools, and purges against holy men.

In the same way revisions of the law to allow Koranic instruction in schools would seem enlightened gestures. Religious schooling was gradually restored from 1946. Islamic instruction in schools was made compulsory again by the military administration after the last coup in 1980. This was perhaps the single most influential change to spur Islamic revivalism since the death of Atatürk in 1938.

Turkey's 99.9 per cent Muslim society is headed by a president, Mr Turgut Ozal, who regularly attends the mosque on Fridays. He comes from a family that followed the teachings of one of the Muslim secret sects, the Nakshbendis.

The Ozal administration has heralded sharp rises in the annual budgets of the Presidency of Religious Affairs which is attached directly to the Prime Minister's office. The 1990 budget gave the PRA a 237 per cent increase in its budget, putting it ahead of nine departmental ministries.

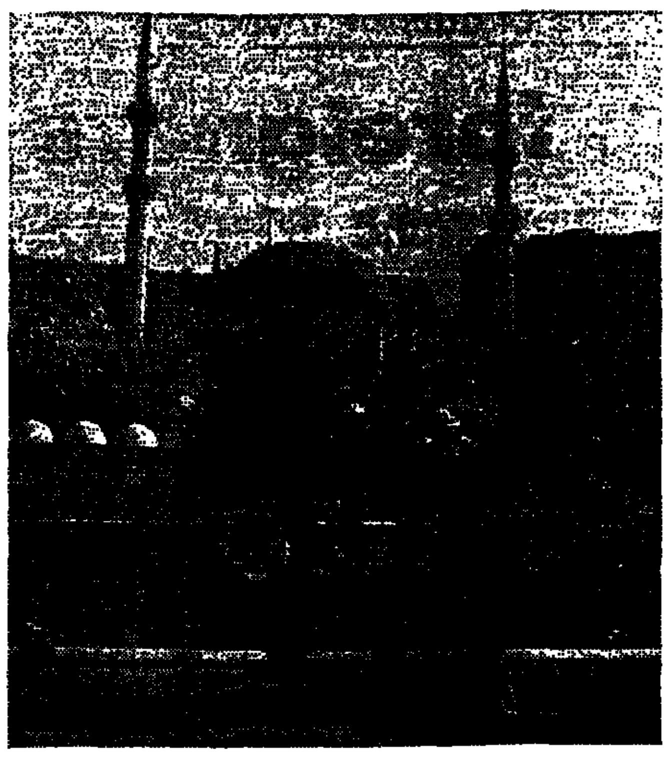
Clerical schools are churning out 50,000 graduates a year, compared with 2,500 graduates from agricultural colleges. Some 92,000 Turks made the pilgrimage to Mecca in 1988 compared with 10,800 in 1979. In the same period the Department of Religious Affairs swelled from nearly 51,000 employees to nearly 85,000 and the number of Koranic schools nearly doubled. Islam is a growth industry.

The imams do not preach religious tolerance. During the first millennium as Christianity spread throughout the east, in Capadocia Byzantine clerics gouged out their own churches in the soft basalt rock. Some 3,000 churches can be found dotted around the region. All but the most remote have been desecrated, the face of Christ on the early *frescoes* obliterated.

The last Islamic campaign was to reconvert St Sophia's, the great domed Byzantine Christian masterpiece in Istanbul, into a mosque after Atatürk designated it a museum. The application was rejected by the Turkish Government.

The spectre that some urban Kemalist intellectuals present as a real fear for the future is that Turkey could fall prey to the revolutionary brand of Islam proclaimed by Ayatollah Khomeini.

It is too simplistic to dismiss this possibility, using the argument that Iranians are predominantly Shias, whereas Sunni Muslims are dominant in Turkey. In Turkey the Shia minority of between 15m and 20m, known as Alevis, are not as strict as Sunnis in the way they interpret Islam. An Islamic explosion like that in Iran seems less likely than a continuation of creeping Islam, becoming increasingly pervasive as it has in countries such as Malaysia.



The new Dergan mosque of Urfa, in southern Turkey

Fundamentalism in Turkey should not be confused with fanaticism. Some 40,000 Muslims crammed into Ankara's great mosque for the start of Ramadan at the beginning of April. About eight young fundamentalists started a demonstration but it was quickly quelled by other worshippers, a sign that many ardent Muslims are fundamentalist with a small f.

A fanatical minority, however, has demonstrated its ability to spread terror. In January Prof Muammer Aksoy, president of the Turkish Legal Profession Foundation, was shot dead outside his Ankara home by a group calling itself Islamic Action. The group said it carried out the killing because of his opposition to the veiling of women.

Two weeks later Mr Cetic Emec, a respected newspaper columnist was shot dead in Istanbul, leading to Government fears that both murders could be linked to a concerted effort at destabilisation.

The question of whether women students in Turkish universities should be permitted to wear headscarves had been the subject of lengthy political infighting until the Turkish Government ruled that universities should decide for themselves.

The seemingly innocent manifestation of a democratic right to wear headscarves, as it was portrayed by the students, concealed the interpretation by Turkish intellectuals that the headgear was worn as an overtly political statement.

Turkish society continues to debate its significance. Some believe that the headscarves are worn as a radical gesture of rebellious youth, others that the practice is ideologically inspired, and still others that parental pressure is behind it. Few secularists can accept that headscarves could simply be worn as a recognition of Islamic orthodoxy.

Many Kemalists believe that Islamic revivalists are systematically chipping away at the secular foundations of the Turkish state. Moslem fundamentalists have replaced "reds under the bed" as the chief bogeymen in urban society.

A recent headline of the Turkish Daily News, Turkey's English daily newspaper, described Islamic fundamentalism as the number one scare, ahead of terrorism, environment, inflation and another military coup. The poll had been conducted in the three largest urban centres, Istanbul, Ankara and Izmir, ignoring the views of about 50 per cent of the community which lives in rural centres.

The rural views are ignored because the small communities have never been able to embrace Atatürk's religious reforms. Devout Muslim men and women work the fields side by side as they have always done, not perfect Muslims but good Muslims. They are not fanatical but neither are they progressive in the Kemalist sense.

Atatürk's enforced secularism appears to be on the retreat. Secularism by choice is thriving in the cities. How long that will remain, given the increasing influence of Islam on Turkish society, may ultimately be in the hands of the army.

Richard Donkin

Richard Donkin looks at the country's controversial human rights record

Torture claims come to court

SPONTANEOUS APPLAUSE thundered across the fetid air of the *State Security Court* in Istanbul as a small man was led away by military guards. The judge, for want of a gavel, thumped the table helplessly with the palm of his hand. The gesture was ignored by some 300 onlookers who had squeezed into the tiny courtroom for the hearing.

Mr Ismail Besikçi is on trial for writing a book entitled "Kurdistan, an International Colony," promoting Kurdish rights in south-east Turkey. Not more than 5ft tall in his stocking feet, this 51-year-old balding bespectacled figure was *difficult to find among* the crowd which crammed the courtroom on the day he was arraigned in April.

Three judges sat on the platform which they shared with the prosecutor. In Turkish courts the prosecutor wears the same sort of robes as the judges. Thirty or 40 Turkish barristers in black gowns packed one side of the court. They had come to support Mr Besikçi and many spoke on his behalf.

His crime, according to the prosecution, is that he has infringed article 142 of the Turkish penal code which proscribes making separatist propaganda. Mr Besikçi did not speak for long. Turkish tradition, he said, demonstrated kindness to children and respect to women. This was not afforded to Kurds. In front of Kurdish women and children, their fathers were being tortured.

The Turkish Government does not officially recognise that torture is a serious problem. Several reports on torture produced by organisations such as Amnesty International and pressure from the European Community in the *wake of Turkey's application to* join the Common Market have forced the Government to confront the problem and introduce measures which will be enforceable in Turkish law.

In 1987 Turkey accepted the right of an individual to petition the European Court of Human Rights. More importantly, on January 8 1989 it recognised the compulsory jurisdiction of the European Court of Human Rights. According to Article 19 of the Turkish constitution, these conventions became an integral part of Turkish legislation.

The Turkish Government emphasises that it was the first country to ratify the European Convention against torture (in January 1988). The convention came into effect in February 1989.

"With *all* these *inner mechanisms* we think we have brought openness and transparency to the Turkish community," says Ms Fügen Ok, the deputy director of multilateral political affairs at the Foreign Ministry.

The mechanisms are being tested at present by Mr Haydar Kutlu and Mr Nihat Sargin, leaders of the illegal United Turkish Communist Party, who were released earlier this month after spending nearly two years in prison. They were arrested because they returned to Turkey from exile with the express intention of organising the party, banned since 1926, on a legal basis. Both say they have been tortured and are taking their case to the European Court of Human Rights.

According to the Human Rights *Association of Turkey, founded* in 1986, some 650,000 people had been tortured in the country between the time of the military *coup d'état* on September 12 1980 and 1986. Amnesty International says that it received more than 500 torture allegations from political prisoners in 1989, listing methods such as beating the soles of the feet (*falaka*), hosing with cold water and electric shocks.

Amnesty's last report, published on May 9, criticised the administration for its failure to enact proposals announced last September and November to cut the period people can be detained by the police and give access for detainees to their lawyers.

Mr Sukru Aksoy, the 30-year-old editor of Emegin Bayragi, a socialist magazine, was reporting on a *political meeting of students at* Yildiz University, Istanbul on March 1. The meeting was in breach of Turkish law.

The students discovered a plain-clothes policeman among them. They took his gun, beat him and threw him out. Squads of police in riot gear which had been waiting outside stormed the university building and began making arrests. Mr Aksoy, who was photographing the incident, was one of those arrested.

Once inside Gayrettepe police station, he says, he was blindfolded and beaten. When he denied accusations that his magazine was financed by the Turkish Communist Marxist-Leninist Movement he was taken to another room where, he says, he was tortured.

After five days in custody he was released without charges. Now, armed with doctors' reports, he is pursuing a private prosecution against the police. Because of the blindfold, however, Mr Aksoy never saw his tormentors, though he believes they must be the same men who signed a prosecution report prepared by the police.

The procedure could be strung out for months, even years. He cannot appeal to the European Court of Human Rights until the Turkish action is exhausted.

The Turkish Foreign Ministry *said some* 15 *successful* prosecutions had been pursued against police officers in 1988 and 1989 on grounds of malpractice, such as beating prisoners and torture.

Mr Aksoy's magazine is one of many left-wing publications which can no longer find publishers since the Government introduced a statutory decree on April 11 giving the governor of nine provinces in the south-east of the country wide-ranging powers which include the confiscation of printing presses of any newspaper which publishes articles that could be deemed to harm security operations.

He can also ban strikes which threaten law and order and expel dissidents from the region. Decree 448, which extends in part over the whole country, should go before Parliament for approval according to the constitution but the Government can fix the timing.

The decree has the effect of curbing discussion of Kurdish rights in the south-east. A law introduced by the military and retained by the present administration says that the Kurdish language cannot be published in Turkey, or taught in schools. Only official state languages are legal in Turkey. A publication in Esperanto, for example, is illegal.

Mr Bülent Akarcali, a Motherland Party (ANAP) MP for Istanbul has introduced a bill to the National Assembly, proposing the establishment of a human rights commission.

The bill, which has the support of the three main political parties, is intended to follow international developments and to bring the constitution and legislation within international human rights conventions.

Mr Akarcali says Turkey had greatly improved its human rights record in the past seven years. Attacking Turkey's critics, he says: "None of the human rights organisations has condemned the assassinations of almost 100 women and children by terrorists in the last two years."

Jim Bodgener on the crucial role of outside investors

Ever-welcome foreigners

FOREIGN INVESTMENT has kept to an upward curve this year, according to Dr Ibrahim Cakir, head of the foreign investment department (FID) of the State Planning Organisation (SPO). Project approvals by the FID rose by 32 per cent in the first quarter of this year compared with January-March 1989.

In 1989, actual inflows of foreign investment rose to $738m compared with $406m a year previously, and this year are expected to increase to around $1bn. There was also an 83 per cent increase last year in the total value of permits issued to $1.47bn.

Advantages cited by investors include a welcoming legal structure, a diligent labour force and increasing demand domestically from an expanding and ever more consumer-oriented population, while Turkey has competitive advantages abroad, in neighbouring markets such as Iraq, Iran and the Soviet Union, and on the threshold of the EC.

Nor is the interest one-way only – the major conglomerate Alarko, for example, plans to have its shares listed on the London Stock Exchange by the end of the year. Another Turkish holding company has recently been approached by up to five merchant banks, seeking to assist in having its shares listed on the London market.

Foreign investor interest is still robust, despite the deterioration in the domestic economy. Turkish companies need infusions of capital and foreign technology and managerial expertise.

US investment clients seem most out of touch with the economy, but Turkey is still seen as a good prospect in the UK and Japan. French interest remains, despite the recent controversy over the cancellation by an Ankara administrative court of the privatisation of five cement plants to Société des Ciments Francais. The Turkish Government has to make sure such a debacle never happens again, says an Istanbul businessman, and should market the country more overseas.

Manufacturing, mainly consumer durables and components both for the export and domestic market, attracts most foreign investor interest, followed by tourism. Communications is a promising sector too, highlighted by the start-up in June of broadcasts from West Germany by Turkey's first independent television station, Magic Box.

But faced by political and economic uncertainty, foreign investor interest in small to medium-sized projects in manufacturing and services is flagging. The long gestation period needed for a major investment probably explains this – once the big decisions are taken, they are harder to reverse. "We regard large deals as an exception to the rule," says a foreign accountant in the Istanbul office of an international firm.

And though investment legislation is satisfactory, bureaucratic bugbears remain beyond the FID. "You could say that the FID was one of the most welcoming and understanding government departments in Turkey unlike, for example, to the Finance and Customs Ministry, or the Social Security and Labour Ministry," says another foreign accountant.

Decree No 32, introduced last August, has greatly enhanced the investment climate by freeing up cross-border capital flows. But the sweeping liberalisation of the import regime since last summer has been a two-edged sword – while some sectors have become more attractive to foreign investment, others which were developing behind a high tariff wall are now exposed. Investors also no longer get such a good deal because lira depreciation has fallen behind inflation.

As yet, how much foreign investment will be deflected away from Turkey to Eastern Europe is uncertain

As yet, how much foreign investment will be deflected away from Turkey to Eastern Europe is uncertain. Dr Cakir thinks the ending of the first wave of euphoria has exposed command economies riddled with inertia and inefficiencies, and far behind Turkey in the liberality of their investment regimes, as for example, the remittance of profits.

East Germany may be getting a large Volkswagen complex, but in Turkey too the automotive sector has attracted keen interest, with new investments planned by Toyota and Peugeot/Citroen with a total estimated cost of $650m. After a long period of gestation, Toyota confirmed in April it was planning with its Turkish partner, Haci Omer Sabanci Holding, to build a plant near Adapazari with an eventual capacity of 100,000 units annually, making commercial vehicles and its 1.6 litre Corolla model. Japanese trading house Mitsui is also expected to take a minor 10 per cent stake.

Joint venture partners in the Peugeot/Citroen scheme are the UK's Polly Peck International, owned by Turkish-Cypriot entrepreneur Asil Nadir, and Cukurova Holding. In a plant most probably near Izmir, Peugeot is planning to assemble its 405 model and a new Citroen range. Meanwhile, by the end of 1991 General Motors hopes to start up production of up to 15,000 annually of the Vectra model made by its West German subsidiary Opel in a plant already under construction near Izmir.

Naturally, domestic producers say the market cannot stand such a deluge of new output, and that the sector is already hamstrung by small economies of scale. On the other hand, the annual demand for new cars in Turkey is expected to increase to 500,000 units by the year 2000, when the existing car manufacturers, founded as import substitution industries in the late 1960s and early 1970s, will have a combined annual output of 280,000 units.

Officials also say that for too long the Turkish public has been starved of choice through the assembly in Turkey behind high tariff protection of older or discontinued models in Europe. "We are going to make the newest car in Turkey with the most modern technology," says Mr Ozdemir Sabanci, the family member responsible for the Toyota project.

Another major investment involving Sabanci is a $200m project for the local manufacture by Philip Morris of the US of its cigarette brands in Turkey, where it already has a 37 per cent market share. This will involve bringing into production a half-finished factory built near Izmir in the 1970s for the state monopoly Tekel, also a minority partner in the project.

Despite some uncertainties about protectionism and permitted retail margins, Philip Morris is looking to a 15-20 per cent return on capital invested. "Demographically, with a large and expanding population, we could factor in a 2 to 2.5 per cent increase in total consumption annually," says a company executive.

In the tourism sector, an avenue for foreign capital was pioneered in April with approval by the FID for Turkey's first venture capital company, Turtrust, jointly owned by Bankers Trust and the local Turkpetrol. With an initial capital of $50m, it will help companies transcend financial bottlenecks with medium-term equity infusions. In the sector, like much of Turkish industry, many companies are heavily leveraged and badly-structured.

"Bankers Trust is trying to position itself for the 1990s in Turkey," says Mr John Ong, its Istanbul-based representative. "One of the dominant themes is that Turkey needs capital. So we're moving away from being a bank concentrating solely on debt to one also channelling equity into the country."

Foreign investment will also be boosted significantly by the equity infusions from the foreign partners in the first two "build-operate-transfer" projects to get off the ground in Turkey, a $1bn thermal power station planned at Aliaga by a Japanese-led consortium, and the first $500m-plus stage of the Ankara metro project. The power station has run into environmental protests, but Dr Cakir is confident the difficulties can be circumvented, while work has already started on the metro first stage by a Canadian-led consortium.

LESS-DEVELOPED REGIONS

GAP is still there on living standards

TURKEY IS a country of wide-ranging variegations in society and culture, but none so evident as that between the rich, urbanised, industrial west, and the backward and deprived east. And in the south-east, economic frustration has been inflamed by Kurdish ethnic aspirations, and the vicious guerrilla war between security forces and the Marxist, separatist Kurdish Workers Party (PKK).

Since the insurgency first erupted in 1984, the Kurdish question has gradually come to the fore of national politics, rearing up against the exclusion of all but an overriding Turkish citizenship by the state. Most of region's 4.5m predominantly Kurdish population do not go so far as to demand a separate state, but protest against being allegedly treated as second-class citizens.

This year, though the PKK appears to be losing in the hills, sullen resentment is turning into open defiance in the towns and cities, to the extent that the region, the last to emerge from martial law, is now again under a security clampdown.

In the face of the growing discontent, last month the Government imposed press restrictions and doubled sentences for supporters of the PKK. At the same time, it announced plans to provide around 90,000 fresh jobs in the region, and persuade civil servants and teachers to work there by increasing their salaries.

However, per capita income in eastern Turkey is only about 40 per cent of the national average. In the long term, the Government is attempting to redress the region's economic backwardness by the vast and ambitious south-east Anatolian (GAP) development programme – but local civil authorities say they have yet to taste the benefits.

Kamran Inan

"This has accumulated over years and years, and we are confronted suddenly with the huge problem of developing the area," says Mr Kamran Inan, State Minister responsible for closing the developmental gap for Turkey's less-developed regions. "It's never too late for these things," he adds.

Out of Turkey's total 67 provinces, 14 within Mr Inan's purview are of first priority and 15 of secondary urgency. For these, the Government has made an exception to its otherwise *laissez-faire* thinking, and is actively promoting with incentives the development of private sector investment in agriculture and industry to create employment.

Combined, Mr Inan's provinces account for 44 per cent of the national land surface and 28 per cent of the population. Of the total of 29, 21 are located in eastern and south-eastern Turkey. The Government claims considerable progress so far in providing 80 per cent of villages with schools, electricity, telephones and drinking water.

In its first stage through 13 distinct sub-projects, GAP will attempt to transform arid and semi-arid lands in a total project area of 73,836 square kilometres – or 9.5 per cent of Turkey's land area – into an agricultural dynamo for the country and its neighbours, not to mention more than doubling overall Turkish cash and export crop production. Industrial crops like cotton will predominate – the 150,000 tonnes of cotton already grown will rise to 600,000 tonnes in the first stage, and eventually reach 900,000 tonnes.

Industry will play an important part too, centring on the city of Gaziantep where there is already an established industrial base. The total surface area embracing the six provinces of Gaziantep, Diyarbakir, Sanli Urfa, Mardin, Adiyaman and Siirt matches up to around 13.5 per cent of the whole of France, while its irrigated fields will equal 4.6 per cent of all French arable land.

In the (GAP) development programme's six project districts, the population is expected to double from the present 5m in the next decade. There is strong urban migration within the region itself, and not only to the large conurbations of Western Anatolia. For example, the city of Sanli Urfa has the highest population growth in Turkey, of 8 per cent annually.

Two factors are behind this increase, the lack of adequate birth control coupled with traditional preferences for large families, and the lack of industrialisation and urbanisation compared with the West, with attendant deficiencies in education.

Though it envisages the construction of a total of 22 dams, of which the centrepiece is the massive Ataturk Dam on the Euphrates, nearing completion, the GAP project should not be thought of only in terms of irrigation and energy, but as an integrated programme, cautions Mr Inan.

Difficulties of co-ordination between hierarchical government departments had previously hampered GAP, but last November the Government created a central GAP development administration, as proposed in a masterplan drawn up by Japanese consultants Nippon Koei and the local Yuksel. Subsidiary consultancies are being awarded for various sectors such as livestock and marketing.

The Government initially stated it would fund the basic development costs of GAP without external aid. At 1988 prices, these have been estimated to total $21bn, and daily expenditure at present amounts to $2m, according to Mr Inan. Now, however, the Government appears to be soliciting some external development assistance.

Turkish officials expect GAP to attract enormous investments, with strong interest in provision of development assistance from abroad. However, Ankara diplomatic circles say that though the Japanese Government is interested in aiding, for example, the extensive irrigation programme on the Harran plains attached to the Ataturk Dam, through its Overseas Economic Co-operation Fund, disputed rights to the waters of the Euphrates must first be settled between Turkey, Syria and Iraq. Similarly, World Bank funds can only be channelled indirectly to the project from national level programmes. Terrorism is another concern.

This is one of the sorry predicaments of the south-east. The GAP programme clearly overtaxes available budgetary resources, but external development assistance in the required quantities will only start to flow when the Government has reduced instability and geopolitical tension in the region to a safe level.

Jim Bodgener